



Center for Audit Quality

PCAOB Engagement Metrics Report -
Investors

July 2024

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:

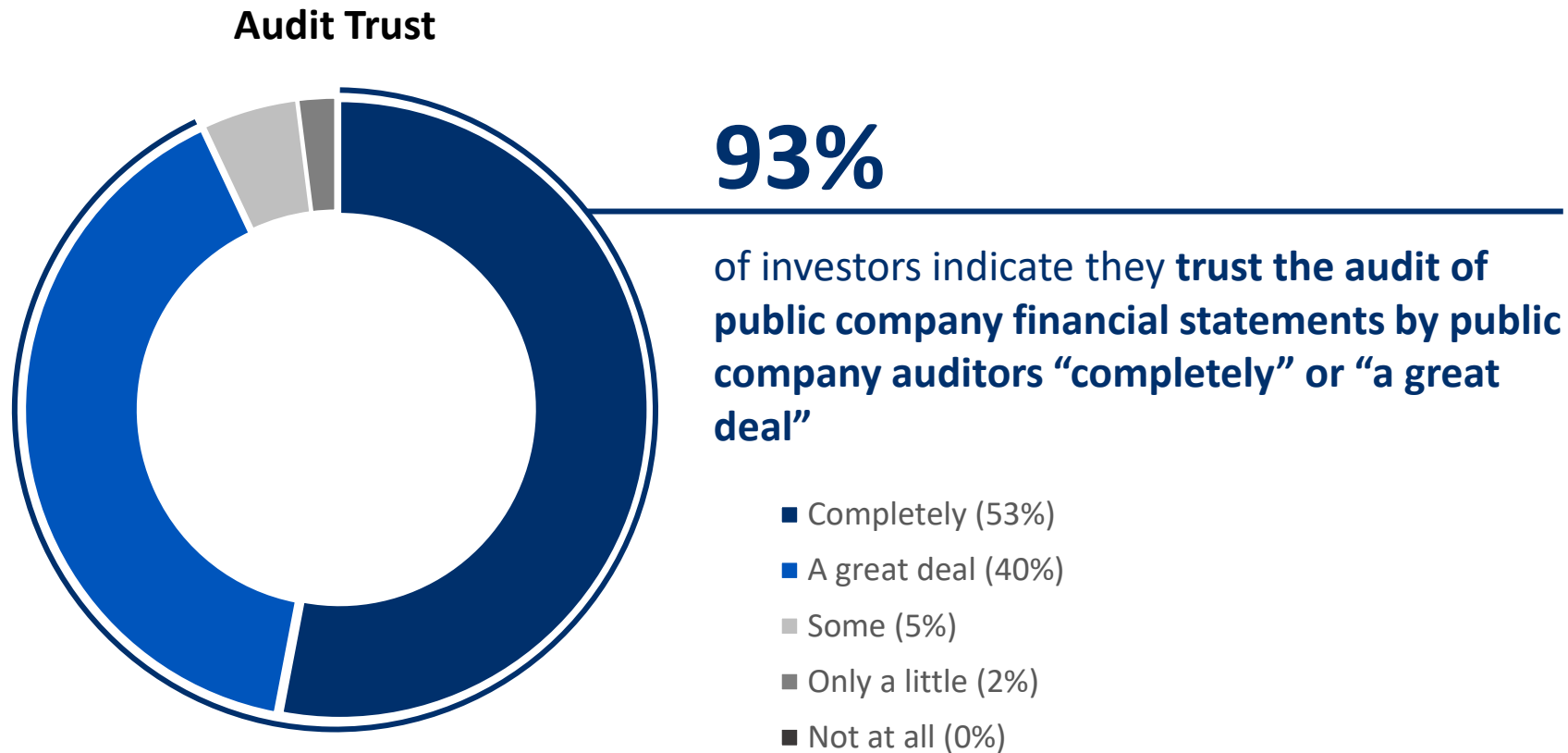
- Assess the information available to investors allowing them to evaluate the quality of the audit of a publicly traded company they invest in or follow
- Gauge knowledge and use of Form AP, Form 2, and Form 3
- Assess investor awareness of recent PCAOB proposals and quality of the organization's standard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



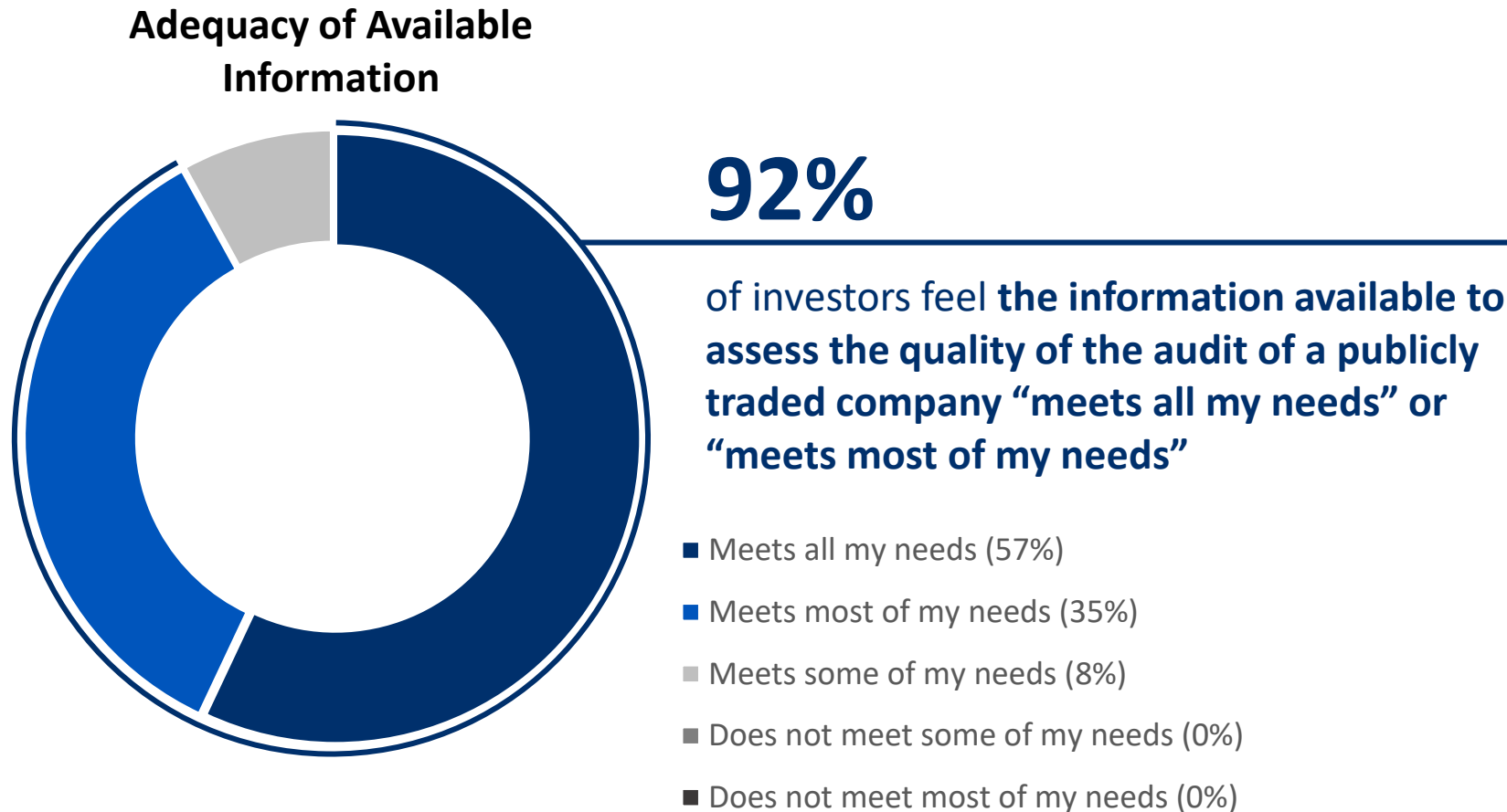
The survey research was conducted online from May 15 – 22, 2024 among 100 U.S. institutional investors.

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%	+12
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



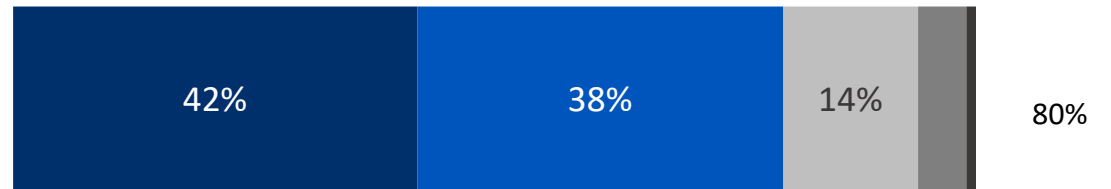
Q9. How strongly do you agree or disagree with the following statements about mandated disclosures of firm and engagement-level metrics? (Base: All respondents, n=100) *Only showing values greater than 4%



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%

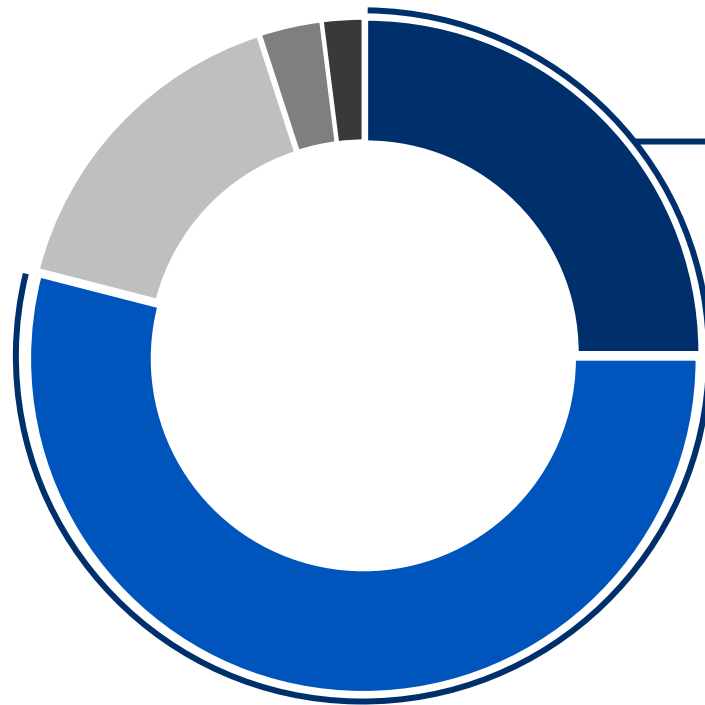
■ Strongly agree ■ Somewhat agree ■ Neither agree nor disagree ■ Somewhat disagree ■ Strongly disagree

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



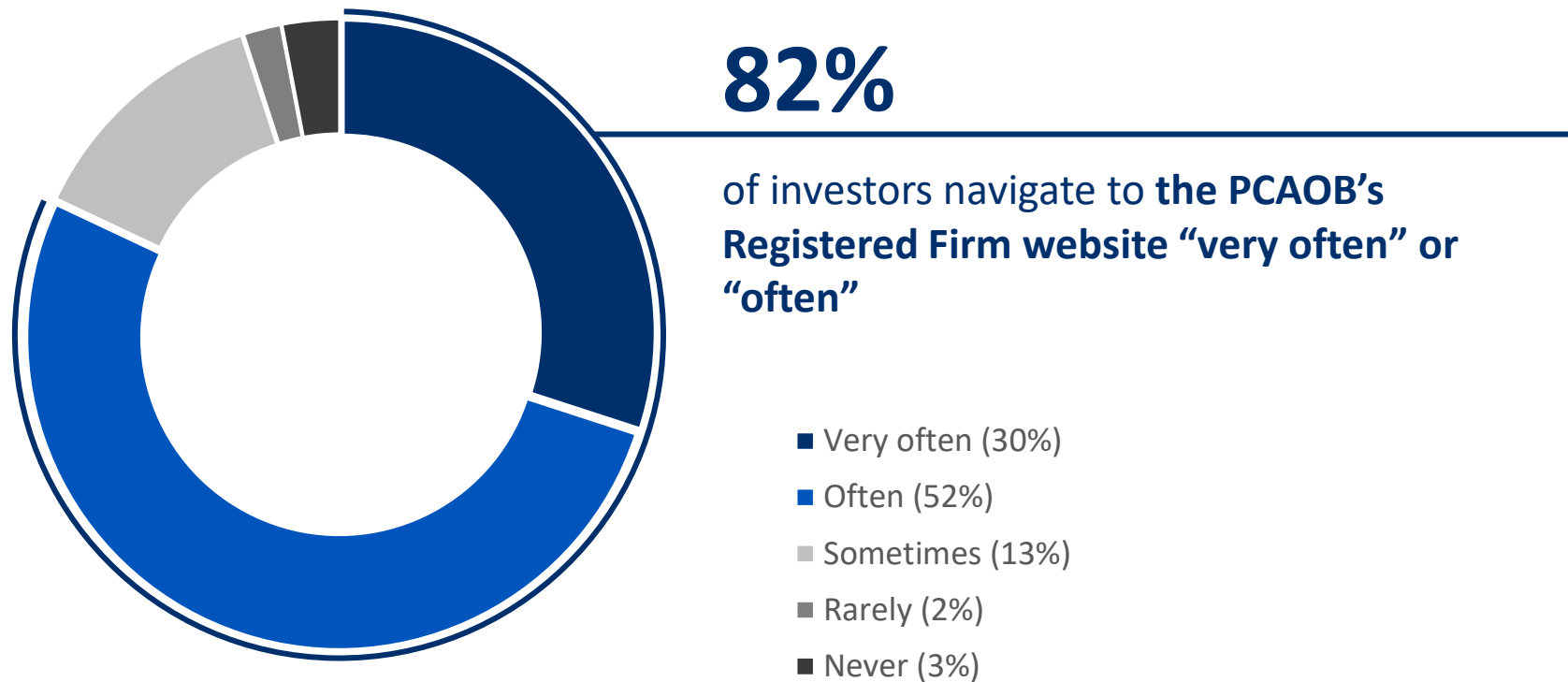
79%

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%)

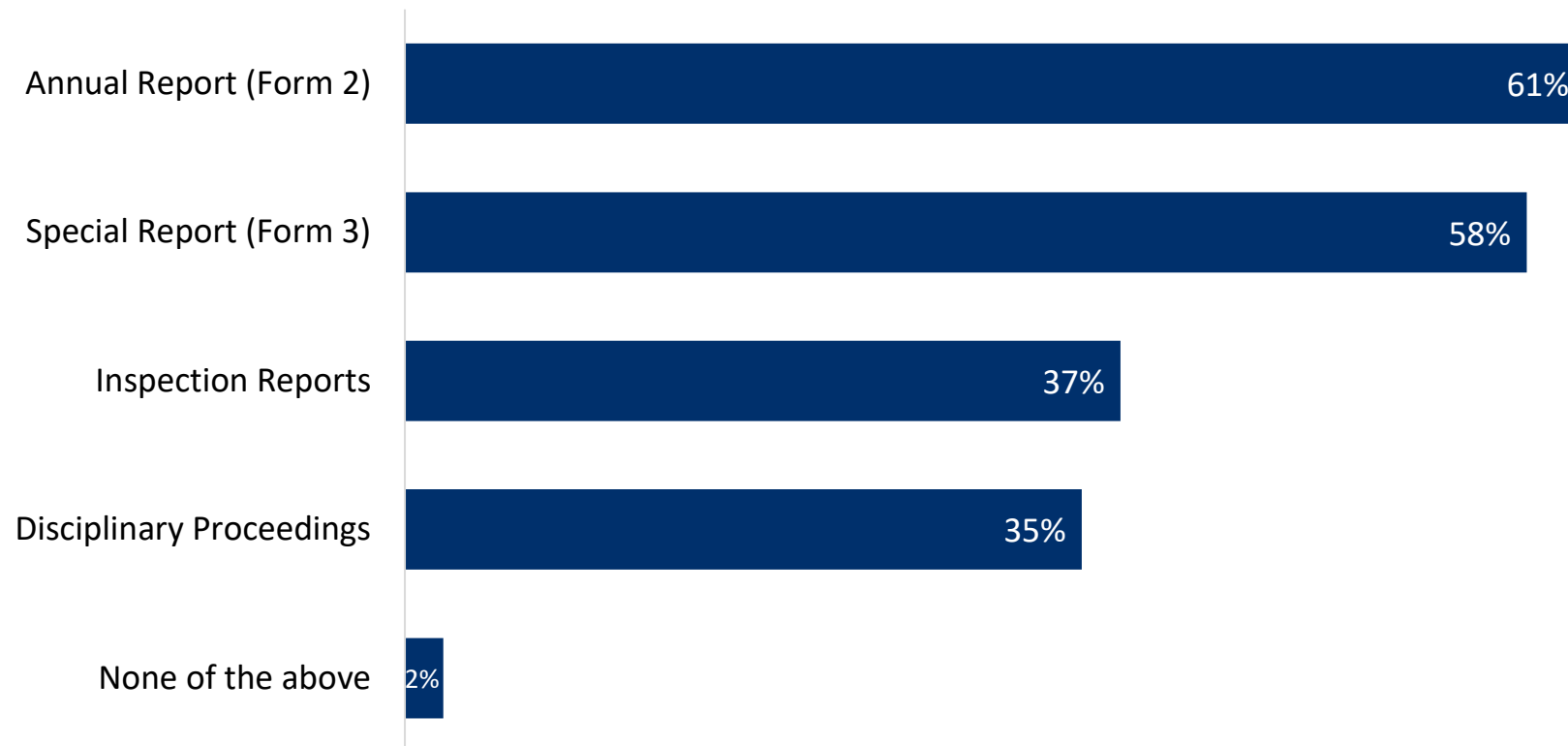
Most investors also say they often navigate to the PCAOB's Registered Firm website.

Frequency Visiting PCAOB's Registered Firm Website



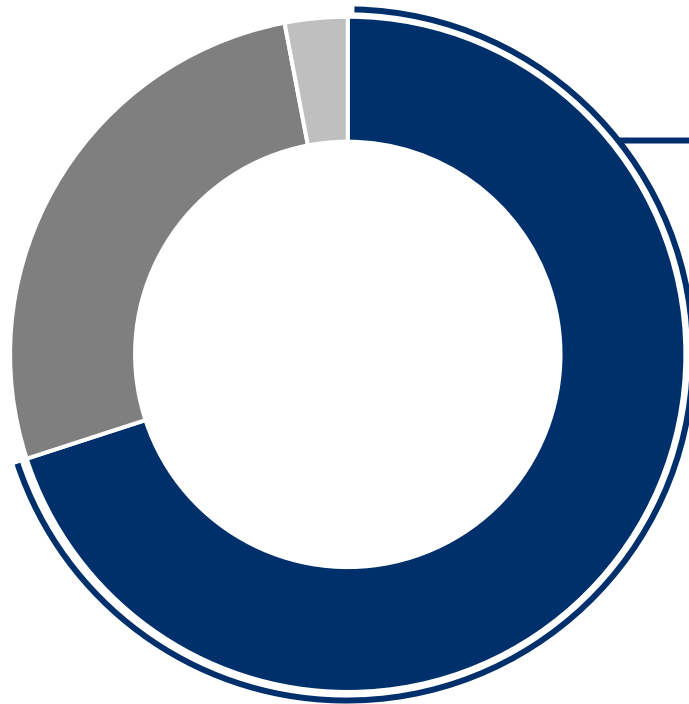
Six in 10 investors say that Form 2 and/or Form 3 provides useful information to them.

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?



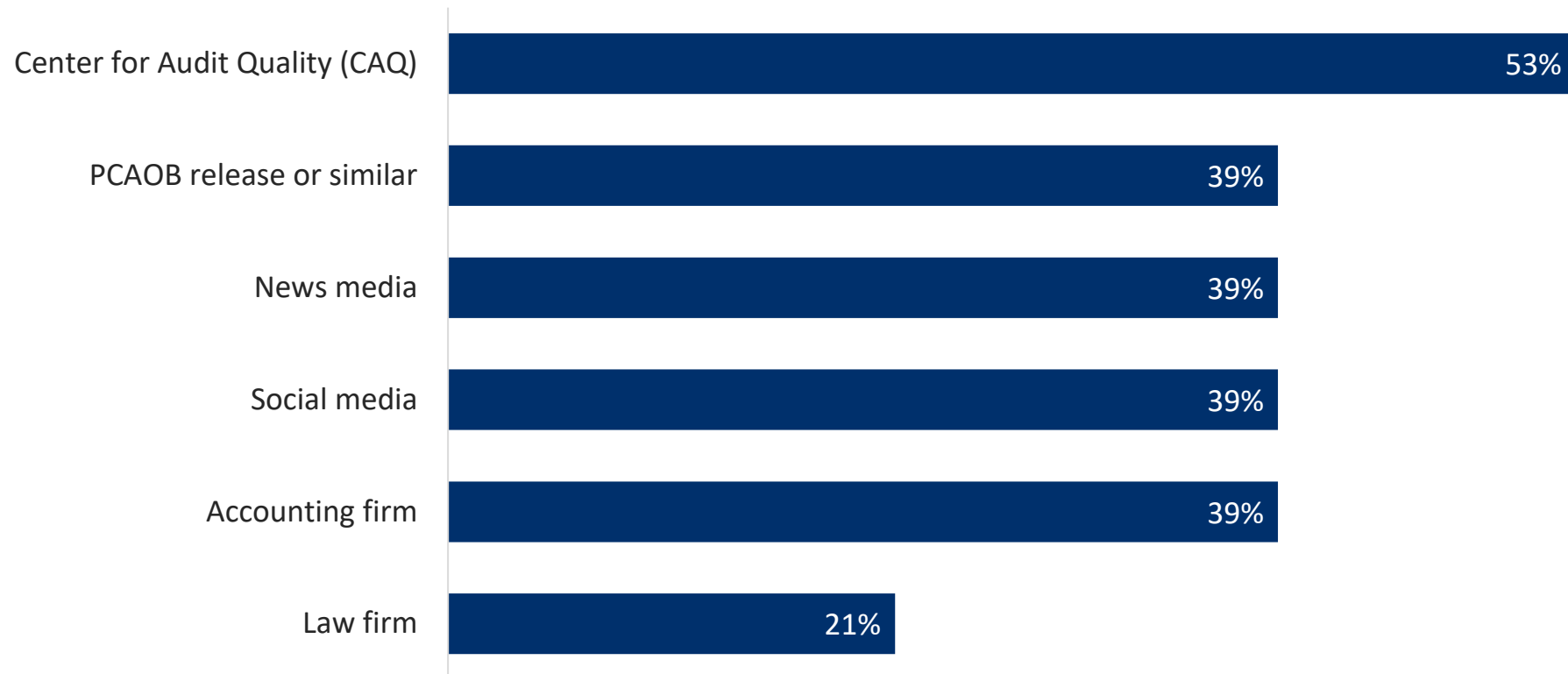
70%

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%)

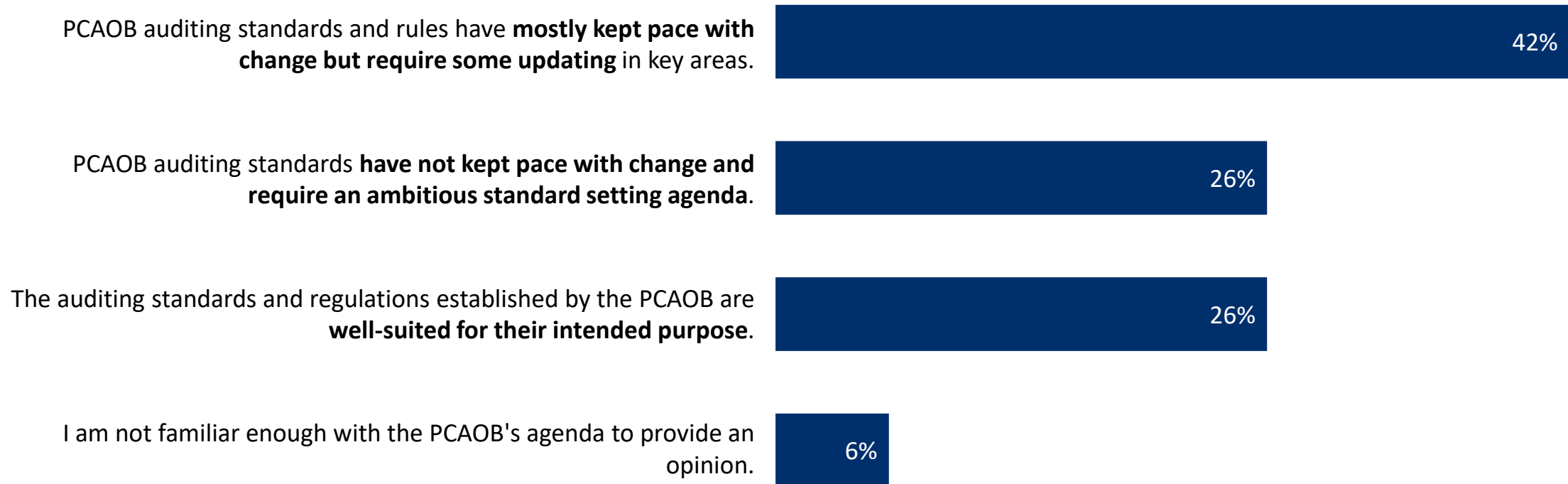
Investors heard about the PCAOB's proposals from a variety of sources.

How did you hear about the PCAOB's proposals?



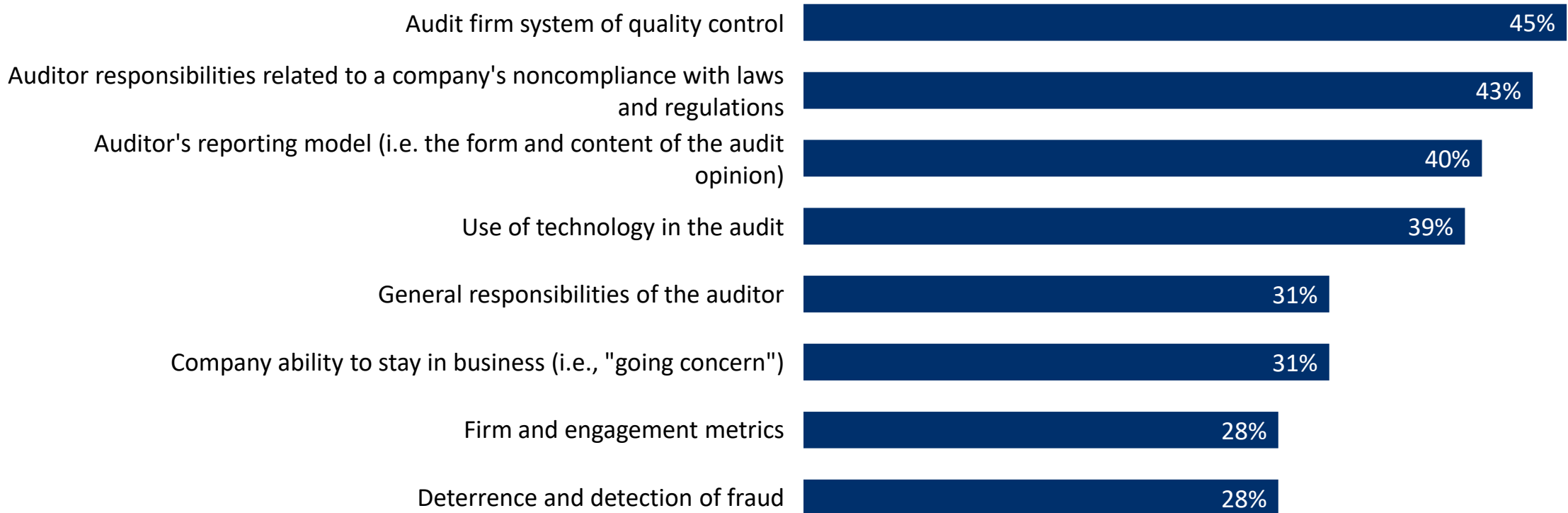
Four in 10 investors feel PCAOB auditing standards and rules have mostly kept pace with change but need updating in key areas.

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)

