



October 26, 2022

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

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

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the "Board") *Request for Information and Comment on the Application and Use of the PCAOB's Interim Attestation Standards* (the "request for information").

We commend the staff for seeking input on the use of the Board's interim attestation standards before issuing a standard-setting proposal. Timely development and enhancement to PCAOB standards is appropriate if those standards are to be used to satisfy the SEC's proposed requirement for attestation on registrants' scope 1 and scope 2 GHG emissions information ("the SEC's climate proposal"). We offer recommendations within this letter based on our experience performing attest engagements. The Appendix addresses the specific questions posed in the request for information and provides additional rationale for our recommendations.

The need for a PCAOB attestation standard addressing climate disclosures specifically

A fundamentally important quality of good reporting is its reliability. From our engagement with and surveys of investors, we understand they expect relevant quality data pertaining to ESG information. We believe they should be entitled to the same confidence in GHG emissions and other climate information as they currently expect from financial disclosures. Today's attest engagements on climate information are designed to enhance the quality of voluntary reporting by companies. But we know there is a wide range of practice in terms of the nature and extent of procedures performed in these engagements. As a result, the PCAOB's request for information and comment is timely.

The SEC's proposal to require an attest engagement on scope 1 and scope 2 GHG emissions disclosures acknowledges that third-party assurance would provide investors with additional confidence in the quality of the emissions information and enhance its credibility. Third-party assurance can enhance the reliability of sustainability information by providing insight into the reliability of management's assertions, data, and disclosures.

The request for information asks important questions about whether there are specific improvements needed to PCAOB standards for anticipated future users. The forthcoming requirement for attest engagements on scope 1 and scope 2 GHG emissions information is the most compelling reason to update the PCAOB's attestation standards. There have been significant investments made by other standard setters that can be leveraged to help the PCAOB further its goal to modernize its attestation standards.

In the US, the AICPA attestation standards are currently the most commonly used to conduct voluntary emissions attest engagements, at least in part because their use is mandatory for AICPA member firms,



unless the engagement is subject to the jurisdictions of the PCAOB's inspection program.¹ The AICPA's standards have been updated since the PCAOB adopted them on an interim basis in 2003. The latest enhancements to those standards were made two years ago in 2020, building on earlier updates in 2016, and were developed following due process and public consultation.

The PCAOB could also look to the international assurance standards. The IAASB is in the process of leveraging its assurance framework, its principles-based ISAE 3000 and ISAE 3410 addressing GHG statements, and previously issued extensive non-authoritative guidance, in order to develop a separate standalone standard addressing sustainability assurance engagements. The new standard would be intended for use by both CPAs and non-CPAs.

We believe two strategic questions are especially important for the PCAOB to consider in moving forward with its efforts - what threshold for assurance is needed to move performance to what would align with growing calls from investors for confidence in reported information? And what level of specificity, such as subject matter-specific requirements and guidance, would foster greater consistency across assurance providers, without constraining adaptability to future changes in the subject matter? From a more technical perspective:

- Should PCAOB attestation standards be developed on a subject matter-specific basis, or should they permit practitioner judgment on the basis of general framework standards?
- Should revised PCAOB attestation standards require reasonable assurance or permit limited assurance engagements?

We believe subject matter-specific standards and guidance narrow diversity in practice and gaps in expectations. This is consistent with the approach the AICPA has taken in developing and updating its authoritative guide, *Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information)*, as well as the IAASB's current efforts.

Currently, most climate-related attest engagements are review engagements in which the service provider obtains limited assurance, even for registrants. In our letter to the SEC, we recommend that the SEC consider requiring reasonable assurance over scope 1 and scope 2 GHG emissions information (i.e., an examination engagement), beginning in the first year of disclosure for impacted filers (rather than starting with limited assurance). In our view, this would be most responsive to investor demands.

Although the AICPA and IAASB standards permit limited assurance, we recommend the PCAOB focus its efforts to develop a subject matter-specific standard focused on examination engagements (i.e., reasonable assurance) aligned with the SEC's proposed disclosure framework. Addressing both of these strategic questions would enhance the quality of assurance services, consistent with the PCAOB's mission.

In moving forward with any standard setting, further engagement with the ASB, the IAASB, auditors, preparers, audit committees, and others could help the PCAOB identify areas on which to focus in developing requirements related to attestation on GHG emissions and other climate information that are

¹ The "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires members who perform professional services to comply with standards promulgated by bodies designated by the Council of the AICPA. The AICPA Accounting and Review Services Committee, Auditing Standards Board, and Management Consulting Services Executive Committee are the bodies that have been authorized under the "General Standards Rule" (ET sec. 1.300.001) and the "Compliance With Standards Rule" of the AICPA Code of Professional Conduct to promulgate attestation standards in their respective areas of responsibility.



capable of consistent application and appropriately support the quality of these engagements. We look forward to continuing to engage with the PCAOB staff on our experience applying and maintaining our methodology, which presently contemplates the AICPA standards and guidance to be a minimum and, in places, extends our procedures further.

Our firm has developed a robust methodology related to sustainability engagements that provides additional policies and guidance beyond the AICPA standards using relevant concepts that are addressed in auditing standards, which serves as a foundation for an examination engagement.

Among other things, our methodology in an examination engagement focuses on understanding processes and controls related to the subject matter, testing them where appropriate, and identifying and assessing risks of material misstatement. We use multi-disciplinary teams with appropriate experience and deep subject-matter expertise in both performing attest engagements and addressing ESG matters.

Evaluating the methods, data, and significant assumptions used by management in preparing estimates and evaluating their presentation of the disclosures are important elements of our work. These are areas where there can be significant management judgment and incentives for bias and fraud, as ESG metrics can often be linked to management compensation. Together with the requirements that exist in AICPA standards today, these practices could be incorporated into a new PCAOB standard to align with the proposed SEC requirements (see our responses to questions 8-11 and 13).

Complementary actions to enhance quality of scope 1 and scope 2 GHG emissions attest engagements

Other projects, such as the PCAOB's separate standard-setting project to enhance its quality control standards, should be developed with consideration of the PCAOB's approach to its attestation standards, and can help to support the quality of those engagements. Effective quality control systems are crucial to supporting quality audits and promoting consistency in execution of attest engagements under PCAOB standards. These systems should identify the quality risks of performing these engagements and appropriately assess and address those risks. For example, identifying and assigning individuals with specialized skills and knowledge in both attestation and sustainability needs to be done with appropriate policies, methodology, and tools. Monitoring and remediation when quality issues are detected is also essential, as this is an area where both reporting and attestation are continuing to evolve and, when done properly, has significant benefits to preventing or minimizing quality matters.

Finally, because attest providers may be considered to be appearing and practicing before the SEC under any final rule, we also recommend in our letter to the SEC that the Commission consider whether it could direct the PCAOB to expand its inspection oversight to encompass attest engagements, such as those regarding GHG emissions information. Unless non-CPA providers are subject to equivalent oversight, we believe there is a substantial risk that the SEC's intent for those providers to have a robust system of quality control and adhere to comprehensive independence requirements will not be realized.

A wider trend for enhanced credibility and trust in information relevant to investors

Assurance on information that matters, delivered by skilled professionals, is critical for the health of our capital markets and builds trust in our society. We believe the increasing demand for assurance on matters related to climate is part of a wider trend that is reflective of the expectations of investors and other users calling for enhanced confidence in financial and non-financial information outside of the audited financial statements. CPAs are well-placed to perform attest engagements on a wide range of subject matters. As



companies continue to look for opportunities to enhance trust by providing more timely and relevant information to their investors, demand for attest engagements will increase - independent assurance further strengthens that trust.

Our response to question 5 highlights the types of attest engagements we currently perform. We apply PCAOB attestation standards for engagements performed in accordance with AT 1 compliance and AT 2 exemption engagements for brokers and dealers. As described on page 9, we are required by the AICPA to apply AICPA attestation standards for other attest engagements.

This requirement extends to circumstances in which public companies voluntarily request attest engagements. Demand for these engagements is influenced by company and user needs. In many cases, it is an iterative process to understand management's and the audit committee's objectives and purpose in reporting this additional information to help inform decisions on the type(s) of service that are feasible and would best enhance the credibility of the information based on the maturity of the reporting.

We believe investors will continue to demand that the SEC and PCAOB, as well as the FASB, act to enhance the relevance of information they may use in decision making. For example, they may seek to further advance additional disclosures to be included in the audited financial statements as well as elsewhere in public filings (e.g., management's discussion and analysis, description of business, risk factors) about ESG-related matters and company strategy in the interest of providing investors with decision-useful information. As with financial statements prepared on the accrual basis of accounting, climate-related disclosures may be prepared with methodologies that incorporate use of past, present, and forward-looking information and projections. Preparation may require significant management judgment, prepared on the basis of techniques and assumptions in a number of areas. Narrative disclosures are often used to help users understand the measurement uncertainty, methodology, significant inputs, and significant assumptions. Spending time on these concepts in the context of a specific attestation standard to align with the SEC's climate proposal may help the PCAOB consider whether it is appropriate to make updates to AT 301, AT 401, and AT 701 in the future.

Broader enhancements to the PCAOB's attestation standards for subject matter other than climate as a second phase

As we note above, we believe the PCAOB should prioritize developing a subject-matter specific attestation standard to align with the SEC's climate proposal, leveraging the significant efforts of the AICPA on the topic of sustainability. As a second phase, we believe the PCAOB could leverage the knowledge and experience from developing that standard to determine whether and, if so, how best to update its interim attestation standards, in particular AT 101 and AT 201.

As noted above, the AICPA attestation standards have been developed following due process and public consultation, with input from users of attestation reports. There is merit in the PCAOB developing proposals that substantially align with the current AICPA standards, which we believe would help the PCAOB further its goal to modernize its attestation standards. As the AICPA standards are also substantially converged with those of the IAASB, leveraging them in revised PCAOB standards would result in a globally consistent foundation for attestation standards. In our view, this approach provides the most timely way for the PCAOB to progress this aspect of its standard-setting agenda in a manner that supports the public interest. It could also mitigate the potentially significant incremental costs to practitioners (and therefore companies) to operationalize a new set of "general" standards that are intended to accomplish the same objectives. Building on the existing attest framework that was



thoughtfully developed and is widely accepted today appears to best weigh the costs and benefits of PCAOB standard-setting activity on attestation standards.

Conclusion

The CPA's role in the corporate reporting ecosystem goes beyond providing audit reports. We see a growing demand for investor-grade, relevant information beyond what is provided in the audited financial statements. Assurance is a crucial element of enhancing the credibility and trust in information investors and other stakeholders care about. The auditing profession is well-placed to play a greater role in building trust in society. The CPA has a long-standing track record of promoting trust, supported by a suite of standards and guidance designed to be applied to a wide range of subject matters that have benefitted from public input and are accepted in the marketplace. As the SEC and others focus on the advancement of disclosures that are in the public interest from a corporate reporting perspective, the time is right for the PCAOB to take steps to ensure its attestation standards are relevant and capable of application to those subject matters that are of most interest to investors. The PCAOB may find it appropriate over the longer-term to focus on subject matter-specific standards tailored to the underlying management reporting requirements. In our view, this would best raise the bar to achieve investor-grade reporting on those matters that investors believe are most relevant to their decision making and could be done in tandem with the SEC or others considering establishing requirements for attestation.

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We appreciate the opportunity to provide input and would be pleased to continue a dialogue with the Board and its staff. Please contact Brian Croteau at brian.t.croteau@pwc.com or Heidi Schuetze at heidi.schuetze@pwc.com regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP



Appendix - Responses to specific questions

Use of attestation reports

1. Aside from regulatory bodies, who are the users of attestation reports and how do they benefit from these reports?

Attest engagements performed by an independent practitioner build credibility and trust in financial and non-financial information reported by companies, as well as the effectiveness of processes and controls. Attestation reports might be issued for a wide variety of reasons. They may be used by a company (including management and the audit committee) or made more widely available.

For example, attestation reports can be used by:

- regulators to inform their views about a company's compliance with laws and regulations,
- current and potential investors to inform their investment decisions,
- current and potential users of a service organization to understand the design and operating effectiveness of another company's processes and controls, or
- parties to a contract to increase their confidence that the terms of the contract are being met.

Independent attestation reports over a company's disclosures need to be responsive to user needs, while at the same time adequately conveying the inherent limitations in preparing and assuring the subject matter. This becomes even more important when the wider public benefits from an attestation engagement. If SEC requirements related to scope 1 and scope 2 GHG emissions disclosures come into effect, it will be important for the SEC and PCAOB to engage with users to ensure what is being reported is consistent and that users understand how the information is being prepared as well as the nature of both limited and reasonable assurance engagements.

Climate-related information presented outside of the audited financial statements is currently subject to a range of verifications or "assurance", from second party opinions, the use of which might be restricted to the engaging party, to third-party assurance by CPAs (mostly limited assurance engagements). The proposed SEC requirements and updated PCAOB standards could contribute to enhancing the quality of these engagements that would benefit users of this information.

2. Do users of attestation reports influence the type of attest engagements performed? If so, how? Please provide details.

Yes, but how users influence the types of attest engagements may vary.

When attest engagements are required by law or regulation, it is presumed that the needs of users are taken into account in developing the requirements that govern (i) the subject matter, (ii) the nature of the engagement, and (iii) the criteria to be applied (including the determination that the criteria is suitable for the intended users' purposes).

Voluntary requests for an attest engagement are often made by management, with the oversight of the audit committee, with GHG emissions one of many subject matters. Companies may be seeking to



differentiate themselves by disclosing information beyond what is required by the financial reporting framework – and are likely influenced by the intended users’ information needs as well as what their peer groups are disclosing.

Agreed-upon procedures (AUP) engagements may be used more frequently when the information exchange is between two parties, for example parties to a contract, or when AUP engagements are required by regulators. In an AUP engagement, the practitioner performs specific procedures on the subject matter and reports the findings without providing an opinion or conclusion. The AUP report is often restricted to the intended users who have agreed to the procedures to be performed and acknowledged that they are appropriate for their purposes. Engaging parties may often look to have an AUP or review engagement performed due to cost considerations.

An attest review or examination engagement may be performed for a wider group of intended users who are looking to the practitioner to express a conclusion or provide an opinion on the subject matter. The nature and extent of procedures varies within these engagements, depending on the level of assurance and the nature of the subject matter.

- The practitioner’s objective in an **attest review** engagement is to obtain **limited assurance** about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria. The practitioner is required to describe the procedures that were performed in their written report. This is to mitigate the potential risk that users might think the assurance obtained from an attest review engagement is greater than it actually is. Subject-matter specific standards or other guidance promoting consistency of the procedures performed can be helpful to manage expectations about attest review engagements.
- The practitioner’s objective in an **attest examination** engagement is to obtain **reasonable assurance** about whether the subject matter as measured or evaluated against the criteria is free from material misstatement. The practitioner expresses an opinion in a written report either about whether the subject matter is in accordance with (or based on) the criteria, in all material respects, or management’s assertion is fairly stated, in all material respects. The concept of reasonable assurance may be better understood by users based on their knowledge of audits.

3. What attestation reports do investors find to be most useful in making investment decisions?
Please provide details.

We believe investors themselves are best placed to provide details on what attestation reports are of most use to them in making investment decisions. However, we offer the following observations about how corporate reporting - and assurance thereon - is evolving.

Information availability, accessibility, and reliability underpin the interrelated objectives of investor protection, capital formation, and the fair and efficient functioning of the capital markets. Investors have signaled that they are using information beyond what is included in the audited financial statements - both financial and non-financial in nature - to make investment decisions. Regulators and standard setters are responding to investor demand by considering additional disclosure requirements (e.g., the SEC’s climate disclosure proposal). Such disclosures can also be forward-looking and therefore significant management judgment may be needed in preparing them. Third-party assurance on the additional information may increase investor confidence in such disclosures. Depending on the nature of the information, it may merit an examination or review engagement.



PwC's Global Investor Survey²

A fundamentally important quality of good reporting is its reliability. The SEC's proposal to require an attest engagement on scope 1 and scope 2 GHG emissions disclosures acknowledges that third-party assurance would provide investors with additional confidence in the quality of the emissions information and enhance its credibility. Third-party assurance can enhance the reliability of sustainability information by providing insight into the reliability of management's assertions, data, and disclosures.

In PwC's global investor survey completed in fall 2021, 77% of US respondents report having more trust in ESG information if it has been independently assured, and 72% believe that it should be assured at the same level as a financial statement audit (i.e., reasonable assurance). We also learned that investors have high expectations of an organization providing assurance on ESG reporting. Investors expect assurers to have experience in applying assurance methodologies and standards, but that alone is not enough. They also prioritize assurers having appropriate quality management systems in place, as well as expertise in what's being assured. Also critical is having an ethical framework that reinforces the assurer's independence, integrity, and objectivity. Our survey found that over 80% of investors value this experience, quality oversight, expertise, and independence. Service providers who are not CPAs may not be required to adhere to requirements governing quality management and ethics, including independence, that are consistent, monitored, and well-defined. It is helpful to have these investor perspectives in mind as we look at the landscape of assurance and verification of sustainability reporting both in the US and globally.

4. Could changes to PCAOB attestation standards help to inform or protect investors? Please provide details.

Consistent with our response to the SEC's climate proposal, we believe third-party assurance is a key element of investor protection, as it builds trust by providing investors with additional confidence in reported information.

Changes to PCAOB standards that enhance the quality of attest engagements would therefore benefit all users, in part by minimizing diversity in the work performed in such engagements. As explained in our cover letter, we recommend the PCAOB focus its efforts to develop a subject matter-specific standard focused on examination engagements (i.e., reasonable assurance) aligned with the SEC's proposed disclosure framework in its climate proposal.

Current practice

5. What types of engagements are currently performed under PCAOB attestation standards? Please describe the circumstances under which these engagements are performed and the type of attestation provided (e.g., examination, review, or agreed-upon procedures).

We apply PCAOB attestation standards for engagements performed in accordance with AT 1 compliance and AT 2 exemption engagements for brokers and dealers. These engagements are subject to the jurisdiction of the PCAOB's inspection program.

² [PwC's 2021 Global Investor Survey](#)



We are required by the AICPA to apply AICPA attestation standards for other attest engagements when the engagement is not subject to the jurisdiction of the PCAOB's inspection program,³ even if a regulator requires the engagement to be conducted in accordance with PCAOB standards. Examples include Regulation AB attest examination engagements and SIPC Form 3 and Form 7 AUP engagements. In such circumstances, the engagement is performed in accordance with both PCAOB and AICPA standards, with both standards being referenced in our attestation report.

We also routinely perform attest engagements solely in accordance with AICPA standards and authoritative guidance, including for public companies. These include the following:

- Examination of controls at a service organization relevant to user entities' internal control over financial reporting (SOC 1)
- Examination of controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy (SOC 2)
- Custody rule examination (surprise securities count and internal control over custody) as required by Rule 206(4)-2 of the Investment Advisers Act of 1940
- Registered transfer agent internal control examination under SEC Rule 17Ad-13
- Chief Compliance Officer consideration of specified compliance control objectives and related controls under SEC Rule 38a-1
- Global Investment Performance Standards (GIPS) examination
- Uniform Single Attestation Program (USAP) examination for Mortgage Bankers
- Attest review engagements related to environmental, social, and governance metrics
- "Use of proceeds" engagements related to green and social bond offerings
- AUP engagements required by law, regulation, or contract (e.g., EPA, NJ and Michigan insurance claims, NY insurance department derivative transactions)
- Other subject matter-specific examination, review, and AUP engagements as requested by clients

6. Are attest engagements being performed pursuant to AT 301 [Financial Forecasts and Projections], AT 401 [Reporting on Pro Forma Financial Information], or AT 701 [Management's Discussion and Analysis]? If so, please describe the circumstances under which these engagements are performed, including the attestation standard used and the type of attestation provided (e.g., examination, review, or agreed-upon procedures). Are attest engagements being performed that apply the interpretations in AT 9101? If so, please describe the circumstances and nature of work performed.

We are not currently performing attest engagements pursuant to PCAOB AT 301, AT 401, or AT 701 (or the equivalent AICPA standards). Of the four interpretations contained in AT 9101, we are not performing attest engagements covered by Interpretation 1. The remaining three interpretations are also in the AICPA

³ The "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires members who perform professional services to comply with standards promulgated by bodies designated by the Council of the AICPA. The AICPA Accounting and Review Services Committee, Auditing Standards Board, and Management Consulting Services Executive Committee are the bodies that have been authorized under the "General Standards Rule" (ET sec. 1.300.001) and the "Compliance With Standards Rule" of the AICPA Code of Professional Conduct to promulgate attestation standards in their respective areas of responsibility.



literature, and we consider the guidance therein if applicable to the situation.

However, the subject matters addressed by these standards are of interest to investors. We believe investors will continue to demand that the SEC and PCAOB, as well as the FASB, act to enhance the relevance of information they may use in decision-making. For example, they may press for additional disclosures to be included in the audited financial statements as well as elsewhere in public filings (e.g., management's discussion and analysis, description of business, risk factors) about ESG-related matters and company strategy in the interest of providing investors with decision-useful information. As with financial statements prepared on the accrual basis of accounting, climate-related disclosures may be prepared with methodologies that incorporate use of past, present, and forward-looking information and projections. Preparation may require significant management judgment, prepared on the basis of techniques and assumptions in a number of areas. Narrative disclosures are often used to help users understand the measurement uncertainty, methodology, significant inputs, and significant assumptions. Spending time on these concepts in the context of a separate attestation standard to align with the SEC's climate proposal may help the PCAOB consider whether it is appropriate to make updates to AT 301, AT 401, and AT 701 in the future.

7. As described above, some regulators require attestation reports to be issued under PCAOB attestation standards. Do other organizations or entities require attestation reports issued under PCAOB attestation standards? If so, please provide relevant details, including the subject matter and the specific standards applied. Alternatively, are there specific circumstances in which firms have chosen to voluntarily perform attest engagements under PCAOB attestation standards? If so, please provide relevant details.

Outside of the engagements described in our response to question 5, we are not aware of any other organizations that require attestation reports issued under the PCAOB attestation standards. Rather, any voluntary engagements are performed in accordance with AICPA standards when the engagement is not subject to the jurisdiction of the PCAOB's inspection program.

Potential updates to requirements

8. Are specific improvements needed to PCAOB attestation standards, including as currently used or for anticipated future uses? If so, please describe the needed improvements.

As noted in our cover letter, the forthcoming requirement for attest engagements on scope 1 and scope 2 GHG emissions information is the most compelling reason to update the PCAOB's attestation standards. There have been significant investments made by other standard setters that can be leveraged to help the PCAOB further its goal to modernize its attestation standards.

Since the PCAOB adopted the AICPA standards in April 2003, these standards have been updated to incorporate additional requirements and application material. Most notably, they have been separated into four standards designed to address (i) concepts common to all attest engagements; (ii) assertion-based examination engagements; (iii) assertion-based review engagements; and (iv) AUP engagements, as well as a new standard addressing direct engagements (in which management is not required to provide an assertion). Additionally, there is now greater specificity about the preconditions to an attest engagement, including consideration of whether the subject matter is appropriate and the suitability of criteria (e.g., the concept of specifically designed criteria).



These standards include requirements that bring in key concepts from GAAS using principles-based requirements addressing topics such as leadership responsibilities for quality; assignment of the engagement team and practitioner's specialists; identification and assessment of risks of material misstatement; responding to assessed risks and obtaining evidence; procedures regarding estimates; sampling; addressing fraud, laws, and regulations; using the work of a practitioner's specialist; using the work of internal auditors; using the work of an other practitioner; and reporting.

The AICPA standards have also been supplemented by subject matter-specific guidance to promote their consistent application (e.g., in the case of SOC engagements and sustainability). As described in our response to question 5, these standards and the subject matter-specific guides and SOPs developed by the AICPA currently support the performance of engagements on a vast array of subject matters.

The need for a PCAOB attestation standard addressing climate disclosures specifically

As described in our cover letter, we recommend the PCAOB focus its efforts to develop a subject matter-specific standard focused on examination engagements (i.e., reasonable assurance) aligned with the SEC's proposed disclosure framework. Doing so would enhance the quality of assurance services, consistent with the PCAOB's mission.

We look forward to continuing to engage with the PCAOB staff on our experience in engagements from applying and maintaining our methodology, which presently contemplates the AICPA standards and guidance to be a minimum and, in places, extends our procedures further. Our firm has developed a robust methodology related to sustainability engagements that provides additional policies and guidance beyond the AICPA standards using relevant concepts that are addressed in auditing standards, which serves as a foundation for an examination engagement.

Among other things, our methodology in an examination engagement focuses on understanding processes and controls related to the subject matter, testing them where appropriate, and identifying and assessing risks of material misstatement. We use multi-disciplinary teams with appropriate experience and deep subject-matter expertise in both performing attest engagements and addressing ESG matters.

Evaluating the methods, data, and significant assumptions used by management in preparing estimates and evaluating their presentation of the disclosures are important elements of our work. These are areas where there can be significant management judgment and incentives for bias and fraud, as ESG metrics can often be linked to management compensation. Together with the requirements that exist in AICPA standards today, these practices could be incorporated into a new PCAOB standard to align with the proposed SEC requirements.

Given the nature of climate-related disclosures, the PCAOB could look to certain foundational PCAOB auditing standards as a baseline to incorporate relevant concepts into a PCAOB standard to promote the quality of attest engagements. For example, the PCAOB could consider:

- The elements of AS 2501 that would be helpful to promote a more consistent focus on the methods, significant assumptions, and data used to calculate GHG emissions
- The relevance of concepts in AS 2110 and AS 2401 addressing risk assessment and fraud to direct practitioners' attention to the most important matters on which to focus in an attestation engagement



- Requirements regarding determining whether specialized skill or knowledge is necessary as well as addressing the use of specialists – both by management and practitioners – to prevent inappropriate reliance or overreliance on their work
- The requirements from AS 1301 that should be incorporated, given the important role audit committees play in overseeing the company’s strategy relating to climate and related disclosures
- Establishing clear reporting requirements that helps users understand the nature of the attest engagement

We recommend that the SEC and PCAOB work together to address how climate disclosure controls and processes related to disclosures of ESG data should be taken into account in an attestation engagement, especially given that the disclosures and related controls will continue to mature.

Broader enhancements to the PCAOB’s attestation standards for subject matter other than climate as a second phase

As a second phase, we believe the PCAOB could leverage the knowledge and experience from developing the subject matter-specific standard addressing climate to determine whether and, if so, how best to update its interim attestation standards, in particular AT 101 and AT 201.

As noted above, the AICPA attestation standards have been developed following due process and public consultation, with input from users of attestation reports. There is merit in the PCAOB developing proposals that substantially align with the current AICPA standards, which we believe would help the PCAOB further its goal to modernize its attestation standards. As the AICPA standards are also substantially converged with those of the IAASB, leveraging them in revised PCAOB standards would result in a globally consistent foundation for attestation standards. In our view, this approach provides the most timely way for the PCAOB to progress this aspect of its standard-setting agenda in a manner that supports the public interest. It could also mitigate the potentially significant incremental costs to practitioners (and therefore companies) to operationalize a new set of "general" standards that are intended to accomplish the same objectives. Building on the existing attestation framework that was thoughtfully developed and is widely accepted today appears to best weigh the costs and benefits of PCAOB standard-setting activity on attestation standards.

The PCAOB can consider whether there is a need for any enhancements to the AICPA standards, based on what it learns from developing a subject matter-specific standard addressing climate as well as from engagement with stakeholders about current practices. As AT 101 and AT 201 have been designed to be applied to a wide range of subject matters, it is important that any incremental requirements be capable of being applied to such subject matters in a manner that takes into account benefits and costs. For example, more straightforward subject matters may not require that a CPA understand controls related to the subject matter or to use specialized skills or knowledge on the engagement - prescriptive requirements in this regard would be unnecessary. In addition, the nature of an AUP engagement is very different from a review or examination engagement and should be developed with consideration of the unique nature and objectives of such engagements.

<p>9. Is the work of others, including that of specialists and internal auditors, commonly used in performing attest engagements? If so, please describe the relevant circumstances, the nature of the work performed, and how it is used.</p>
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The need for the involvement of subject-matter specialists and internal auditors is taken into account when planning an attest engagement, as these engagements may be performed on a wide range of subject matters that require specialized skills and knowledge beyond those possessed by the CPA. In some situations, the specialist will be consulted to provide advice on an individual matter, but the greater the significance of the work of the specialist in the context of the engagement, the more likely it is that the specialist will work as part of a multi-disciplinary team alongside other attestation personnel.

For example, in most sustainability engagements, the nature of the subject matters and measurement methodologies will need specialized skill or technical knowledge. An engagement team may look to a subject matter specialist who possesses specialized knowledge of sustainability subject matters, such as social, ethical, or environmental matters, while the assurance provider is the expert in the provision of assurance. Engagement teams are therefore structured to include these complementary skills, so that the team has appropriate audit/assurance knowledge as well as specialist subject-matter knowledge.

The AICPA standards establish specific requirements and provide application material related to the use of specialists and internal auditors similar to what would be expected in a financial statement audit. These requirements could be evaluated for inclusion in a revised PCAOB attestation standard. AICPA authoritative guides also provide additional discussion regarding the use of specialists in relation to certain subject matters (e.g., IT specialists in a SOC 2 engagement).

10. Are other accountants (e.g., other audit firms) used in performing attest engagements? If so, please describe the relevant circumstances, the nature of the work performed, and how it is used.

On occasion other accountants are used in performing attest engagements, but it is less common than in a financial statement audit. The considerations would be similar. For example, paragraph 33 of AT-C section 205 sets out minimum requirements, which is supported by additional guidance in our firm methodology.

We believe having principles-based requirements in the attestation standards (consistent with the approach taken in the AICPA standards) would be appropriate, given the variety of engagements to which the standards could be applied - rather than seeking to incorporate all requirements relevant to the audit (e.g., the recently revised amendments to PCAOB standards relating to other auditors). Subject matter-specific standards or guidance could include more detailed expectations if appropriate.

11. Are service organizations commonly used in relation to the subject matter of attest engagements? If so, please describe the relevant circumstances.

Depending on the nature and subject matter of the engagement, the company (as a user organization) may utilize a service organization to perform processes or controls related to the subject matter.

For example, the company may use a third-party service organization to book business travel, and the service organization provides information related to the business-related travel booked by company employees as an input to determining its scope 3 GHG emissions from business travel. In this situation, we obtain an understanding of the activities performed at the service organization and how those activities complement or support the control processes at the user organization.

The use of service organizations and the impact on an attest engagement is not explicitly covered in the AICPA attestation standards, although it is discussed in certain of the AICPA subject matter-specific



guides. We generally apply concepts similar to GAAS (e.g., evaluating and understanding a user organization's use of a service organization (including complementary user entity controls) and the related procedures to be performed), and perform procedures when service organization reports are available. As the market moves to reasonable assurance on climate-related information, there will be an increased focus on the processes and controls at service organizations. The PCAOB could evaluate whether to include requirements from its auditing standards related to the use of service organizations in revising its attestation standards to enhance consistency in this area.

12. Are there circumstances in which accountants are engaged to perform agreed-upon procedures over an assertion rather than over subject matter? If so, please describe these circumstances.

It is uncommon that we would obtain a traditional attest exam/review assertion/representation in an AUP engagement that "the subject matter is presented in accordance with the criteria." But in well-written procedures, there are assertions built into the procedures themselves. We obtain the representations required by AT-C section 215, including a statement that management is not aware of any material misstatements in the subject matter.

13. Are engagement quality control reviewers used in attest engagements performed under PCAOB attestation standards as they are under AT No. 1 and AT No. 2 [in relation to brokers and dealers]? If so, please describe the circumstances in which they are used. What challenges or unintended consequences might arise if PCAOB attestation standards required an engagement quality review? Please describe specific concerns, if any, with such a requirement.

Paragraph 45 of AT-C section 105 sets out requirements for those attest engagements, if any, for which the firm has determined that an engagement quality control review is required. We believe any requirements related to engagement quality control reviews in revised PCAOB standards should be principles-based and allow for firm judgment as to when an engagement quality control review would be required.

As a general matter, we do not think it is necessary for all attest engagements to have an engagement quality review. As a matter of practice in sustainability engagements, however, we require an engagement quality reviewer to be assigned due to the nature of the subject matter and other engagement circumstances. Requiring an engagement quality review for all attest engagements conducted in accordance with PCAOB standards could result in unnecessary costs without a corresponding benefit to quality (e.g., for certain AUP engagements that are straightforward in nature).

Economic implications

14. Is data or other information on current practices available that would help to inform the staff's analysis? If so, please provide such data and other relevant information.

The Center for Audit Quality (CAQ) recently performed an analysis⁴ of publicly available 2020 sustainability data for S&P 500 companies. More than half (282 companies) disclosed some form of assurance over sustainability metrics and, of those, 43 received assurance from a public company audit firm. The remainder received assurance from other service providers.

⁴ Please see the CAQ S&P analysis [here](#).



According to their report, 36 of the 43 engagements performed by public company auditors used the AICPA attestation standards (AT-C section 105 and AT-C section 210); while just 5 were performed under the IAASB's assurance standards.

Of the 245 companies that received some form of assurance or verification from a non-CPA firm, only 76 used the IAASB's assurance standards. Non-CPA firms used ISO standards in a majority of their engagements.

IFAC and AICPA-CIMA also recently released a report⁵ indicating that 1,400 companies across 22 jurisdictions were reviewed and 58% of them disclosed some form of assurance over sustainability metrics. In 72% of those engagements, the IAASB's assurance standards were used. However, 61% of the assurance engagements were conducted by CPA firms, and the IAASB's assurance standards were used in 94% of them. CPA firms following the IAASB's standards constitute a substantial portion of the 72%.

Beyond proprietary data maintained by individual firms, we are not aware of other data or information on current practices relating to attest engagements.

15. What economic implications (including potential benefits and costs) may be associated with updating PCAOB attestation standards, such as unintended consequences from the possible consolidation or elimination of certain standards? Please provide data and other relevant information.

The primary benefits and costs relate to changes that establish a more robust and consistent approach to attest engagements performed in accordance with PCAOB standards. There would be costs associated with implementing the standards - including updates to methodology, tools and templates, as well as training.

Leveraging the AICPA standards in updating the PCAOB attestation standards could mitigate the potentially significant incremental costs to practitioners (and therefore companies) to operationalize a new set of "general" standards that are intended to accomplish the same objectives. Building on the existing attestation framework that was thoughtfully developed and is widely accepted today appears to best weigh the costs and benefits of PCAOB standard-setting activity on attestation standards.

16. Is there ongoing research or additional information that the staff should consider in evaluating the likely economic aspects of changes to PCAOB attestation standards? If so, please provide relevant details.

We are not aware of outside research. As we have mentioned, we have gathered data from investor surveys, as well as board surveys, regarding oversight and board expertise, among other topics.

⁵ [The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis](#)