

**Responses to the PCAOB's Request for Public Comment re
Rulemaking Docket Matter No. 041, Firm and Engagement Metrics and
Rulemaking Docket Matter No. 055, Firm Reporting
Submitted on June 7, 2024 by Robert A. Conway, CPA**

Congratulations to the PCAOB for delivering high-quality proposing releases on 1) Firm and Engagement Metrics and 2) Firm Reporting. Additionally, many thanks to Chair Williams and the board for elevating Engagement Performance Metrics on the PCAOB's Standard Setting Agenda and delivering the proposing releases in a timely manner.

The re-establishment of the Investor Advisory Group and the Standards and Emerging Issues Advisory Group was also instrumental in getting to where we are today. Both advisory groups made substantial contributions to reaching the "proposing release" milestone. Again, thanks to Chair Williams for recognizing the need to re-establish the PCAOB's two advisory groups.

I have also been pleased to see the academic community mobilize to conduct research that largely validates the utility of the engagement performance metrics the PCAOB has selected to move forward with.

I am also grateful to Lynn Turner for his relentless reminders to various PCAOB Boards over a 15+ year span about the importance of executing on the Advisory Committee on the Auditing Profession (ACAP) 2008 Final Report recommendation about the benefits of providing transparency to audit firm operational metrics. I also appreciate Lynn Turner's invitation for me to speak at the PCAOB's Investor Advisory Group meeting on October 10, 2023 and his acknowledgement¹ that my 2007 and 2008 ACAP recommendations² were the origin of the Engagement Performance Metric movement.

Enabling a Giant Leap Forward in How the Audit Firms Compete

In my two recommendations to ACAP, I described how the buyers of audit services had limited information (other than price) to differentiate one audit provider from another. As a result, audit contracts all too often were awarded to the lowest bidder. As a result, the industry has suffered from commodity pricing (except in instances where industry expertise might be a differentiator). I got a good sense that my ACAP recommendations resonated with ACAP when ACAP Co-Chairman Don Nicolaisen observed during the proceedings that, **"The [audit] firms compete primarily on the basis of cost. That's been the history of the profession and it has been disastrous for investors and for the firms."**

¹ See <https://www.youtube.com/watch?v=dwwuCdZ2omw> Skip ad and start at 0:34 to 5:30.

² See <https://www.thetruthaboutpublicaccounting.com/wp-content/uploads/2020/09/Advisory-Committee-on-the-Auditing-Profession-Initial-Recommendation.pdf> and <https://www.thetruthaboutpublicaccounting.com/wp-content/uploads/2020/09/Advisory-Committee-on-the-Auditing-Profession-Second-Recommendation.pdf>

To achieve the desired levels of profitability in a commodity pricing environment, the audit firms have resorted to squeezing their audit professionals for productivity. With the advent of the PCAOB, the audit firms have also found it necessary to squeeze their professionals for audit quality. It is no surprise to me that the audit firms have experienced difficulty attracting and retaining talent that depends so heavily on squeezing people.

In my public comment to the PCAOB in response to its 2015 Concept Release on Audit Quality Indicators,³ I explained that:

The thinking behind [my] recommendation was that the operational metrics of competing audit firms would be of interest to the purchasers of audit services and competitive forces would drive audit firm leaders to improve their operational metrics in a direction conducive to improving audit quality. After all, what audit firm leader would want to be in last place when the metrics are published and what audit committee would desire to engage an audit firm with the least desirable blend of operational metrics? **Additionally, what prospective employee would seek employment with the audit firm with the least desirable blend of operational metrics [i.e., heaviest workloads]?**

The six metrics I proposed in my ACAP recommendations and the desired direction of improvement are summarized below:

<u>Audit Quality Driver / Metric</u>		<u>Desired Direction of Improvement</u>
Years experience after CPA licensing	>>>	More experienced professionals
Percentage staff turnover during year	>>>	Better continuity year-over-year
Chargeable hours per professional	>>>	More reasonable staff workloads
Chargeable hours managed per partner	>>>	More reasonable partner workloads
Ratio of audit staff to partners	>>>	Better supervision
Training hours per professional	>>>	Increasing technical excellence

I am pleased that the PCAOB has landed on a portfolio of metrics that align well with the concepts I first advanced to ACAP in 2007 and 2008.

The Pipeline Issue

I used **bold red font** to highlight the sentence in the prior section to draw attention to the fact that the engagement performance metrics will be of great value to prospective employees as they consider job opportunities in public accounting. I highlight this because the workload metrics in the hands of prospective employees may bring about the fastest and greatest improvement to the audit firm staffing models. Hiring and retaining audit professionals is an ongoing and near-term challenge for all audit firms. No audit firm can afford to fall severely short on meeting its annual and ongoing hiring needs. The firms will have to be competitive on workloads and price (among other things).

³ See <https://www.thetruthaboutpublicaccounting.com/wp-content/uploads/2020/09/PCAOB-AQI-Concept-Release-Initial-Response.pdf>

Many observers say that salaries are not competitive and that the 150-semester-hour credit requirement to sit for the CPA exam is discouraging college graduates from entering the profession. Those seem to be real issues. However, when it comes to root cause analysis of this problem, the audit firms and national and state CPA societies seem to avoid talking about “the elephant in the room” – workloads and work-life balance issues.

Part of what I like about how the PCAOB proposes to make engagement level information available to the public is that the PCAOB’s platform will enable the compilation of engagement level data for all public company engagements within a specific office. **This will facilitate the reporting and comparison of workload data for competing offices within the same geography.** Again, what prospective employee will want to work for the audit firm in a city that has a track record for excessive workloads that undermine work-life balance and audit quality?

More About Why Office Level Data is Important

It is important to understand that the audit firms are not like McDonalds where there is considerable uniformity in how their products are delivered. To the contrary, there is considerable variation within any one audit firm across office locations based on how the partners, including the partner-in-charge of each audit practice, choose to operate in their local area. Do they operate lean to maximize profits? Do they build some extra capacity in event new work comes in the door due to an acquisition? Is the office willing to decline opportunities for new engagements when capacity is limited or is there a mentality of “get the work first and we will figure out how to do it later”? How do we price our audits given the desire for profits and the need to achieve audit quality objectives?

Giving Birth to a New Cottage Industry

The PCAOB has not signaled any intent to aggregate engagement level information within individual geographies, nor do I believe it should do so. But the manner in which the PCAOB proposes to make the data available will enable a third party to make the aggregations necessary to produce comparative information for each of the audit firms competing within the same geography. I hope and expect that academia or others will step in to aggregate and distribute this information to both prospective and existing audit firm employees.

Critical Audit Matters

At the time Critical Audit Matters were being debated, my view then (and continues to be now) that a discussion about the adequacy of supervision and review, staffing, experience levels, and turnover is on par with the importance of “Critical Audit Matters” in and should be part of that discussion alongside Critical Audit Matters. **I was pleased to see the PCAOB offer the audit opinion as an alternative location for the reporting the engagement performance metrics.** This thinking is in line with the subtitle to my book titled “The Truth About Public Accounting” which reads “Understanding and Managing the Risks the Auditors Bring to the Audit.” The engagement performance metrics at the engagement level are a big part of providing transparency to the risks the auditors bring to the audit.

A Few Thoughts About Those Who Might Oppose Engagement Metrics

The PCAOB should bear in mind that the largest audit firms have been touting their “data analytics” capabilities to reveal important trends. If you believe the advertising of the largest audit firms about their capabilities in the field of data analytics, this undertaking should not be terribly difficult or costly. Yes, there will be operational challenges to be dealt with, but those will be resolved.

Audited Financial Statements for the Largest Audit Firms

The PCAOB should closely monitor the financial stability of each of the largest audit firms. Audited financial statements (available to the public) are a good place to start. But the real need goes far beyond audited financial statements. Dodd Frank created the Financial Stability Oversight Counsel which led to the identification of Systemically Important Financial Institutions for heightened regulatory oversight. Do we need something similar for the largest audit firms?

In Closing

This has been a long journey from 2007 to the present. There was no shortage of ups and downs. But patience and perseverance have paid off. I realize it would be premature to spike the ball in the end zone and declare victory. But I am delighted to see the progress made by the PCAOB in the last two years and I am optimistic about the future prospects for the two proposing releases.

Sincerely,

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