



June 12, 2024

VIA E-MAIL: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

**RE: PCAOB Release No. 2024-002, *Firm and Engagement Metrics*; PCAOB Rulemaking Docket Matter No. 041 and PCAOB Release No. 2024-003, *Firm Reporting*; Docket Matter No. 055**

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the "Board") Release No. 2024-002, *Firm and Engagement Metrics* ("firm and engagement metrics proposal") and Release No. 2024-003, *Firm Reporting* ("firm reporting proposal") (collectively, "the proposals" or "proposed standards").

Marcum LLP ("Marcum") ranks among the top 15 public accounting firms in the nation, with more than 4,100 dedicated professionals, including more than 550 partners. During 2023, Marcum was the auditor of over 300 issuers, primarily consisting of smaller reporting companies. Although we audit a large number of issuers, given that the majority of these are smaller reporting companies, the structure of our audits and the internal reporting and tracking systems of our firm is substantially different from Global Network Firms.

Marcum is a member of the Center for Audit Quality (CAQ) and its Smaller Firm Task Force. The firm participated in the CAQ task force review related to these proposals. We have reviewed the CAQ comment letters (including the Smaller Firm Task Force letter) and are generally supportive of the comments and recommendations provided within their letters, which are incorporated by reference herein. This letter includes our incremental views, observations and recommendations on the proposals. Our responses are informed by our experiences serving smaller reporting companies, as well as some accelerated and large accelerated filers, and includes our concerns regarding the potential implications the proposals could have on smaller and medium sized firms.

### ***Overall Comments***

Marcum is supportive of reporting complete, accurate, transparent and decision-useful information, to stakeholders to enhance audit quality and advance investor protection. However, given significant differences in the structure and internal reporting and tracking systems of audit firms and the clients served, we have concerns related to the scalability and cost implications of the proposed standards, as well as the utility of certain metrics of smaller firms. We believe tailored discussions with audit committees related to both firm and engagement metrics is most useful as the audit committee fulfills its statutory responsibility for appointing, compensating and overseeing the external auditor.

We are supportive of mandated communications with audit committees, which allows for dialogue and appropriate contextual disclosure, on metrics that are relevant to the firm and engagement, however, not in the prescribed form within the proposed standards.

We have outlined certain of our observations below, which we believe should be considered by the Board as it works to advance any possible standard.

*Unintended consequences of metrics and impact on audit quality*

The metrics proposed in the Board's release may not provide the desired insights to investors and other stakeholders. Many of the suggested metrics are context-dependent, and without a deep understanding of the specific circumstances that exist for any audit engagement, they may cause users to draw incorrect conclusions. Additionally, the proposed metrics may not accurately reflect the quality or effectiveness of an audit. The complex nature of audit engagements means that metrics can sometimes be misleading, especially if they are viewed outside the context of a particular engagement's unique challenges and circumstances.

Additionally, while quantitative measures can be informative, they are often insufficient on their own to provide a holistic understanding of an audit firm's performance or the intricacies of a specific engagement. For example, metrics such as the number of audit hours or the allocation of resources can vary greatly depending on the industry, the size of the audited entity, and specific risk factors. Without the proper context and robust qualitative disclosure, these numbers could be misinterpreted by stakeholders, leading to unintended consequences. Appropriate context is provided by a robust two-way dialogue between auditor and audit committee; without context information is insufficient for decision-making or comparative purposes.

Small and medium-sized firms typically have a very different operating model to GNFs and other large firms. Certain metrics, even allowing for some contextual disclosure, will not be comparable across firms of varying sizes. For example, a firm may apply a different resourcing model and not utilize (or not heavily utilize) a Shared Service Center (SSC). While there is uncertainty on how a stakeholder may view the use of an SSC, a firm may appear to be an outlier.

*Scalability concerns, cost implications and impact on competition for smaller firms*

The cost implications of this standard would be significant. Audit firms, particularly small and medium-sized firms, would incur substantial costs to track, validate, and report these metrics. The economic impact would be particularly burdensome for these firms, potentially affecting their ability to compete and possibly leading to market concentration that is not conducive to the public interest.

The proposed standard may not be sufficiently scalable as it would likely require many firms of all sizes to hire additional personnel, implement new systems and processes, along with appropriate internal controls, to track, compile, and report the specified metrics. However, smaller audit firms typically operate with limited administrative staff and have fewer existing technological resources compared to larger firms.

The one-size-fits-all approach of the proposed standard does not take into account the diverse nature of firms within the industry, nor does it scale appropriately to match the resources and capacities of smaller practices.

The economic analysis on the use of the metrics appears to be overly focused on larger firms and may not fully consider the substantial impact of the direct and indirect costs associated with implementing the proposed metrics for smaller and medium sized firms. The proposed standard notes “we believe many firms track information related to the proposed metrics.” This appears to be based on the six GNFs, as well as certain NAFs that publicly disclose limited metrics. This does not account for the vast majority of the approximately 220 impacted firms that may not track and do not disclose this information.

Additionally, the analysis indicates that lower quality firms will exit the LAF and AF market and that smaller firms that stay in the market “may choose to build or expand upon existing manual systems (e.g., collecting information in spreadsheets or simple databases) because, for these firms, the scope of information to be collected and processed may be effectively collated in a spreadsheet-based tool.” This is an overly simplistic assumption for a smaller or medium sized firm given the significant implications on ensuring the integrity of the information needed to be reported and potential for human error given the nature of certain of the metrics. For example, our firm has a small LAF and AF practice, however a sizable remaining audit practice, consisting of both public and private audits. Although the majority of the benefit of gathering and disclosing these metrics would be for the use of the stakeholders of the limited LAF and AF clients, we would need firm-wide integrated systems to track these metrics that would appear to have limited utility outside the small number of LAF and AF clients.

While some firms may be able to leverage existing systems, the cost to implement or update an automated system would be substantial and disproportionate relative to the number of LAFs and AFs that a smaller or medium sized firm audits. This creates a significant barrier for smaller high-quality firms to stay in or enter this market.

### **Specific firm and engagement metrics proposal observations**

Based on our review of the firm and engagement metrics proposal, we identified certain metrics that we believe will be difficult to compare across firms, will be costly to prepare and which may cause confusion to the external users. Specifically, we wanted to highlight the following metrics as they appear to be overly focused on the operations of larger firms or have a disproportionate cost implication for smaller firms.

#### ***1. Audit Resources – Use of Auditor’s Specialists and Shared Service Centers.***

**Description of metric:** Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.

The proposed standard defines a shared service center as an associated entity of a firm, set up by a network of accounting firms, that, among other things, supplies those firms with personnel to assist in the performance of audits, and that is not itself an other accounting firm.

However, this specific definition does not encompass all the organizational ways a firm might use resources outside the core audit firm, which could cause confusion to a user of the metrics and cause inappropriate inferences to be drawn.

We believe it would be very challenging to develop a prescriptive measure that would provide insights into a firm's use of other resources on a consistent basis given the different operating models of the wide range of firms required under this proposal. We are generally supportive of contextual descriptions of a firm's resourcing models discussed directly with the Audit Committee.

## *2. Experience of Audit Personnel*

**Description of metric:** Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.

Limiting relevant experience exclusively to auditing experience could potentially overlook the comprehensive skill set that individuals gain from various roles throughout their career. Professionals with a background in other fields, with exposure to a range of financial, regulatory, and business issues, which are now employed at a public accounting firm can deeply enhance an auditor's perspective and contribute to a more holistic understanding of client operations and can lead to more effective and insightful audits. Smaller firms often have a different resourcing model that may include more experienced hires and could inadvertently lead a reader of this information to misconstrue a lack of overall experience. It will also be overly burdensome for smaller firms to accurately track this information, including verifying and tracking experienced hires.

## *3. Industry Experience of Audit Personnel.*

**Description of metric:** Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.

This metric is particularly challenging for smaller and medium-sized firms. Current systems do not capture and track this information. Individuals may often change industries or work across many industries creating more challenges in addressing prescriptive requirements on what might qualify as industry experience. Using the industry code framework proposed by the Board would be challenging and the disclosed information not meaningful for evaluation. Additionally, smaller and medium-sized firms often merge with other smaller firms that may not be subject to the proposal. In these cases, it would not be expected that the smaller firm had tracked this information, making it impossible to determine in those cases. For these reasons, we do not support this metric at the firm or engagement level.

## *4. Allocation of Audit Hours.*

**Description of metric:** Percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement.

We are generally in agreement that performing work prior to an issuer's year end may improve audit quality; we do not believe this metric is comparable between larger firms and other firms and could have unintended consequences. However, we note that in an audit of a smaller reporting company, it is frequently impracticable to perform much work prior to an issuer's year end, both out of concerns for efficiency and because small companies, who might have an outsourced finance function, cannot support significant interim work. We do support this metric as a discussion between the engagement partner and audit committee as both parties would understand the unique circumstances of an engagement, but do not believe public disclosure would be appropriate.

*5. Quality Performance Ratings and Compensation (firm-level only).*

**Description of metric:** Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.

This metric might be confusing to understand in the context of changes in compensation at a smaller firm, simply because of a smaller number of partners in each group, and consideration of overall profitability and income pools in any year. For this reason, we believe that quality performance ratings are more challenging for small and medium sized firms, driven by a smaller population of quality metrics to factor in the overall evaluation process and does not factor in other mechanisms firms have in place to enhance accountability for audit quality. It would be more appropriate to disclose how quality performance is incorporated into the overall process.

*6. Audit Hours and Risk Areas (engagement level)*

**Description of metric:** Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.

Many audit firms, especially for smaller firms, do not currently track hours spent by senior professionals in this level of granularity. While the proposal suggests tracking this on an excel spreadsheet, we believe that suggestion is impractical as such spreadsheets would be prone to error, and a firm would not be able to develop adequate controls in order to ensure compliance with the standard. Were a firm required to implement systems practice wide to track this information, that would require a significant investment.

**Specific firm reporting proposal observations**

Based on our review of the firm reporting proposal, we identified certain areas that will be particularly onerous on firms with client portfolios similar to ours.

*1. Fee Information*

The Proposal would require, among other things, that firms report on Form 2 these fees on a dollar basis, but would also require that audit fees be broken down by fees from issuers, fees from broker-dealers, and fees from "other companies under audit (delineating sources, e.g., fees from private company audits and custody rule audits)."

The costs to compile, aggregate and report the fee information at the level of granularity and precision proposed in the Release would be substantial for firms of all sizes, especially when compared to the expected benefits. Our issuer audit practice constitutes a small percentage of the overall audit firm and therefore the compliance costs would be disproportionate to the number of audits impacted.

## *2. Audit Firm Governance*

There are certain elements of the proposed governance reporting requirements that would mandate disclosure of granular operational details for which the Board has provided no evidence either of utility or decision-usefulness. These include all direct reports to the principal executive officer, the names of the individuals in the roles described in paragraph .12 of QC 1000 and the “processes that would govern a change in the form of the organization”. Regarding the latter item, in addition to the excessive granularity, these processes can be complex and may require significant context to be fully understood.

We have a fairly complicated organization chart with various reporting lines and responsibilities and could be misconstrued that there is too much or too little accountability based on how the reader would perceive that information.

## *3. Special Reporting Requirements*

The Proposal contains a broad materiality threshold for the reporting of certain triggering events, with the implication that such reporting applies to all events impacting the operations of the entire firm beyond its public company audit practice.

This will be difficult for us to operationalize, given the lack of familiarity with PCAOB requirements outside the public company audit practice.

\* \* \* \* \*

Marcum is supportive of providing additional transparency into the audit, and firmly believe that communication of important metrics is best made directly to the audit committee. Regarding firm reporting information directly related to the PCAOB’s oversight function, we believe much of this may be better to transmit under the confidentiality provisions of the Board’s Section 104 inspection authority.

We appreciate the opportunity to comment on the Proposing Releases and would be pleased to discuss any questions the Board and its staff may have concerning our comments. Please contact Adam Clark at [adam.clark@marcumllp.com](mailto:adam.clark@marcumllp.com) or Jason Preisler at [jason.preisler@marcumllp.com](mailto:jason.preisler@marcumllp.com) regarding our submission.

Sincerely,



Marcum LLP