May 28, 2024

PCAOB
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 041 & No. 055

We appreciate the opportunity to provide feedback on the proposed PCAOB Release No. 2024-002, *Firm and Engagement Metrics (PCAOB Rulemaking Docket Matter No. 041)*, and PCAOB Release No. 2024-003, *Firm Reporting (PCAOB Rulemaking Docket Matter No. 055)*, both dated April 9, 2024. PCAOB Release No. 2024-002 requires the reporting of specified firm-level metrics on new Form FM, Firm Metrics, and specified engagement-level metrics on an amended and renamed Form AP, Audit Participants and Metrics. PCAOB Release No. 2024-003 proposes changes designed to improve and modernize reporting requirements; address potential gaps in the information available to the PCAOB, investors, audit committees, and other stakeholders; and facilitate more complete, standardized and timely reporting of firm information.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

Firm and Engagement Metrics

The PSC recognizes that some large firms are already providing many of the firm-level metrics specified in the Release and all stakeholders would benefit from a consistent calculation methodology and comparable presentation format. In general, the PSC agrees with the 11 proposed areas at the *firm* level, with the following exceptions:

- Allocation of audit hours – The timing of audit procedures (and resulting hours) is primarily a function of audit strategy decisions based on the assessment of a company's internal controls over financial reporting (ICFR). An auditor generally tries to perform as many audit procedures before the balance sheet date as possible to avoid a compression of work, but inadequate ICFR may require most hours to be incurred after the balance sheet date. In fact, more hours incurred after the balance sheet date may indicate a proper evaluation of ICFR and higher audit quality. Thus, this metric would provide little insight into audit quality.
- Quality performance ratings and compensation – Partners are generally evaluated and compensated using a balanced scorecard approach, with audit quality one of several key elements of the scorecard. Other elements are also important to audit quality, such as people skills and mentoring. Also, it is likely that the bases of quality performance ratings are not consistent among firms, if separately calculated at all. This proposed metric is unlikely to yield informative comparative information and may be misleading by its implication that all elements of high-quality performance are captured in this overly simplistic metric.

The PSC does not support any required public disclosure of *engagement*-level metrics. Appointment, compensation and replacement of the external auditor is the sole responsibility of the audit committee. Any meaningful use or comparison of engagement-level information requires proper context only provided by a back-and-forth dialogue among audit committee members, the company's current auditor and any potential new auditors. For example, a comparison of partner and manager audit hours or industry experience on one engagement to another engagement in the same industry requires knowledge of the unique circumstances of each engagement, which can only be obtained through inquiry by an audit committee. Without proper context, inferences or conclusions by investors based solely on engagement-level metrics could be misinterpreted and misleading.

The PSC also has the following overall concerns about the Proposal:

- Calculation of these metrics may require data to be stored in new or updated systems. The calculation of these metrics will involve significant work and investment into these systems, for which a cost-benefit analysis should be performed for the metrics to be justified.
- The additional investments listed above will likely impact smaller firms disproportionately, pushing them out of the market for accelerated filers. In turn, this situation will hurt competition as opportunities are instead shifted to firms with a bigger base of accelerated and large accelerated filers.
- The proposal calls for detailed metrics that many investors will not use as they will contribute to information overload.
- Most of the data points required as part of this proposal are currently available to the PCAOB.
- The PSC also believes that metrics, without adequate context, may represent just meaningless statistics. As a result, these metrics may not contribute to audit quality or investor protection.

Firm Reporting

The Firm Reporting requirements would create significantly increased data accumulation and event monitoring and reporting burden on firms, with a disproportionate impact on smaller firms. The PSC recommends that smaller firms be exempted from the proposal's expanded Special Reporting and Cybersecurity reporting requirements, including the reduced reporting deadline, as these firms do not represent systemic risk to the profession.

We appreciate the opportunity to submit comments on the proposed PCAOB Release No. 2024-002, *Firm and Engagement Metrics (PCAOB Rulemaking Docket Matter No. 041)*, and PCAOB Release No. 2024-003, *Firm Reporting (PCAOB Rulemaking Docket Matter No. 055)*.

Sincerely,

Jeffrey Johanns, CPA
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Texas Society of Certified Public Accountants