



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

June 6, 2024

By email: comments@pcaob.org

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

RE: PCAOB Rulemaking Docket Matter No. 041: PCAOB Release No. 2024-002: Firm and Engagement Metrics.

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* (the Release). The proposed new rule and amendments to existing rules and reporting forms to require 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*, included in the Release are herein referred to as the Proposed Amendments.

We acknowledge and are supportive of the PCAOB's effort and commend the Board for proposing enhancements to transparency with the objective of supporting investor protection and furthering the public interest. We are supportive of metrics that could be used by audit committees and auditors to engage in two-way dialogue on audit quality. We are committed to providing relevant stakeholders with accurate, decision-useful information that appropriately reflects the quality of our audit services and our audit practice.

However, we have concerns about certain implications for metrics that do not necessarily correlate with audit quality. Rather, imposition of an overly burdensome set of reporting requirements that feature metrics that have a tenuous relationship with audit quality may result in outcomes different from the Board's intent and objective. Specifically, the Board has not definitively demonstrated the benefits and needs to stakeholders for requiring the public reporting of the proposed metrics. Throughout the Release the relationship of the reported metrics to decision-useful information is merely suggestive given the significant usage of 'may' when discussing benefits and utilization.¹ This suggests the Board has not obtained substantive evidence to demonstrate how the benefits to support furthering the public interest and investor protection outweighs the cost of compliance. In this letter we highlight the metrics and concepts we support to enhance auditor and audit committee two-way communication, express our

¹ See, for example, "Investors and other stakeholders *may* seek to reduce [] information disparities..." (page 23); "This information *may* enable investors, audit committees, and other stakeholders to make better-informed decisions..." (page 24); "...information provided by these metrics *may* help audit committee members and other standards understand the various activities..." (page 43); and, "This additional information *may* facilitate [audit committees and investors] ability to probe more deeply into the specific circumstances of the audit..." (page 49). We have not highlighted all specific instances, however, provided these examples to illustrate the lack of clarity about how the Proposed Amendments provide decision-useful information and/or enhance audit quality.

concerns on others, and provide preliminary questions pertaining to implementation of certain proposed metrics identified to date. We welcome continued discussion with the Board and, given the breadth and significance of the matters highlighted throughout our letter, we recommend the Board repropose this rule after consideration of stakeholder feedback received to seek additional comment and clarifications.

Audit quality is fundamental to maintaining public trust and protecting investors

We support transparency of information that advances investor protection and promotes the public interest. However, there are aspects of the Proposed Amendments that do not address these objectives because there is no meaningful direct relationship to audit quality. We define 'audit quality' as "the outcome when audits are executed consistently, in line with regulatory requirements and intent of applicable professional standards, within a strong and responsible quality management system."² Audit quality is not a compliance exercise; it is a commitment to integrity and continual improvement.

We agree with the Board that no one set of metrics can comprehensively measure audit quality.³ However, the Board's proposed standardized set of metrics not only implies that the metrics measure audit quality but are highly likely to be outdated in the near term. Any standard publicly reported metrics should demonstrate a strong relationship to audit quality and should adapt to changes in the profession over time. While the Release includes objectives for each proposed metric, it does not sufficiently support how each proposed metric correlates with audit quality. We recommend the Board provide a clear articulation to relevant stakeholders, namely audit committees and investors, of the correlation of each metric to audit quality to facilitate a common understanding and interpretation of the reported metrics. This could best be achieved by developing a principles-based framework for the identification of relevant metrics.

A principles-based framework for the identification of metrics would also allow for continuous improvement and for metrics to change over time in response to evolutions in audit firms and engagement execution. In contrast, the proposal as written would set these metrics in stone and subsequent rulemaking would be required to change them. The expanding role of technology, and AI specifically, has just begun to have a significant transformational impact to the profession and how auditor's plan and execute audits. Historically, measures based on audit hours might have been a reliable indicator of audit effort, but the role of technology is rapidly changing how audit effort is measured and managed. Metrics of audit quality (e.g. those with an emphasis on hours or years of experience) that do not reflect the impact of technology, such as through the automation of procedures that were highly manually intensive in nature, will have a diminishing level of meaningfulness in the audit of the future. In other words, hours as a metric will likely no longer be as reliable nor as meaningful a measure of audit quality or progress towards the completion of an audit. Supporting a principles-based framework over rules-based prescribed metrics allows for metrics to change over time commensurate with the evolution of impacts to audit quality without the need for incremental standard-setting. This would allow the Board to prioritize relevance rather than consistency.

² See page 4 of [KPMG's Audit Quality Report](#).

³ See page 6 of the Release.

Risk of misuse and misinterpretation

Firm and engagement performance metrics are also highly contextual.⁴ Absent providing substantial context and understanding how stakeholders will use the metrics, the comparability of the proposed metrics may be compromised, and the risk of misuse or misinterpretation of the metrics could introduce a new element of volatility into the capital markets⁵ (e.g. investors making capital allocation decisions on a metric that is misperceived to be indicative of a level of audit quality that is not correlated with the metric). The contextual nature of these metrics demands deep engagement and two-way communication and cannot be adequately replaced by restricted narrative disclosures. Therefore, narrative disclosure falls short of providing the necessary context.

The Release also cites challenges received from commenters in response to the Concept Release over the comparability of data and metrics, use of metrics by stakeholder groups, and audit committees already having access to certain information, among others.⁶ However, empirical evidence supporting how such challenges have been sufficiently mitigated by the Proposed Amendments is not clear.

We agree with concerns raised by Board Member Ho that “this proposal falls short in providing sufficient context for some of the subjective and complex metrics such that they may not be useful in decision-making.”⁷ As stated in our comment letter on the Concept Release on Audit Quality Indicators, communications related to audit quality should occur between the auditor and audit committee.⁸ This is particularly true for engagement-level metrics. We recommend amending PCAOB AS 1301 to require auditors to engage with audit committees and agree on the information, including metrics, that the audit committee feels is necessary to fulfill its fiduciary obligations. Subsequent reporting to the audit committee on these metrics should then be communicated as part of the audit results discussion. This promotes ongoing two-way contextual conversation allowing for audit committee and auditor assessment, resulting in the evolution of metrics that are perceived by audit committees to be more relevant to the measurement of audit quality.

At the firm level, several metrics use ‘total audit hours’ which includes information from other auditors. Referring to such metrics as ‘firm metrics’ is misleading. As discussed in more detail in response to

⁴ Understanding indicators of audit quality requires substantial knowledge about a specific audit and particular circumstances. Investors may have challenges acquiring this context and such indicators generally would not provide answers. See [PCAOB staff briefing paper](#) prepared for the June 24-25, 2014 meeting of the Standing Advisory Group.

⁵ While the Release specifies that changes to audit quality indicators should not be viewed as a positive or negative signal of audit quality, we are not aware of empirical evidence that provides that investors will be able to obtain an appropriate understanding of this information when making investment decisions.

⁶ See, for example, pages 26 and 115 of the Release.

⁷ See statement from [Statement on the Firm and Engagement Metrics Proposal - Helpful or Harmful to Investors? by Christina Ho, Board Member](#).

⁸ See [KPMG comment letter on PCAOB Request for Comment: Concept Release on Audit Quality Indicators](#).

question 16 in appendix I, such metrics should be limited to the reporting firm to provide meaningful 'firm-level' information.

Operability challenges and unintended consequences

The Proposed Amendments require significant data collection to calculate and report the proposed metrics. These include global process changes or investments in new system infrastructure to accumulate, process, and validate the related data for accurate reporting.⁹ To advance investor protection and promote the public interest, we recommend practical accommodations, such as the implementation of a materiality concept for evaluating errors or changes to previously reported metrics. The absence of a materiality concept results in significant time spent amending and refiling forms for nominal changes that may have little impact on furthering public interest or investor protection. The time and cost required to process insignificant or immaterial amendments for unintentional errors or updates redirects effort from providing audit services and detracts from audit quality. Implementing the concept of materiality enables a focused evaluation for identifying amendments and providing stakeholders with transparent, reliable, and meaningful information while avoiding unnecessary costs.

Additionally, the Proposed Amendments will likely have an unintended consequence of reducing competition in the profession given the higher compliance cost. This is especially concerning for smaller firms who generally serve issuers with smaller market capitalization, including smaller firms needed to conduct audit procedures as a component auditor of a large, multinational group audit. The adverse effect of the costs necessary to comply with the Proposed Amendments will likely cause smaller firms to exit the issuer audit market, resulting in less choice for audit committees when appointing an auditor. This may also result in reductions in registered public accounting firms in foreign jurisdictions available to represent 'substantial roles'¹⁰ in a large multinational group audit. Neither outcome is beneficial to audit quality. To mitigate this concern, we strongly recommend the Board limit the proposed reporting requirements to those audit firms that issued audit reports for more than 100 issuers in the calendar year. This threshold is well-established and understood, as it is the same threshold for annual firm inspection requirements and certain requirements in QC 1000. This threshold would allow for scalability and reduce the compliance burden on smaller firms, while continuing to support investor protection.

The SEC, by way of enacting Section 301 of the Sarbanes Oxley Act of 2002, as amended, (SOX) established the audit committee function to appoint, compensate, and oversee an issuer's auditor; in carrying out such responsibilities, in its role as a 'critical gatekeeper for investor protection.'¹¹ Mandating prescribed metrics available to all stakeholders creates an inappropriately designed, and inappropriate method for investors to monitor the responsibilities of the audit committee and overrides the audit committee's gatekeeper function. It is critical for the Board to understand the implications of the Proposed

⁹ The importance of addressing these challenges is heightened by the QC 1000 requirement for firms to establish quality responses to address the risk of inaccurate and misleading external data within the information and communication component of our system of quality control.

¹⁰ As defined in PCAOB Rule 1001(p)(ii).

¹¹ See statement from SEC Chief Accountant, Paul Munter, "[An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality.](#)"

Amendments on the liability of audit committees given the critical oversight role audit committees serve in the capital markets. The Board should carefully consider the impact of unintended consequences in establishing the scope of the Proposed Amendments.

The importance of confidentiality and other legal restrictions

The Proposed Amendments require public disclosure of an abundance of data at the firm and engagement levels, a considerable amount of which is already made available, on a confidential basis, to both the PCAOB and the audit committees of companies under audit. The loss of confidentiality created by the incremental public disclosure requirements under the Proposed Amendments is concerning. Certain of the disclosures required by the Proposed Amendments (some of which the Release acknowledges are competitively sensitive) are not necessarily aligned with both (a) antitrust and competition legislation enforced by the US Department of Justice and (b) the confidentiality privilege governing certain inspection-related metrics under Section 105(b)(5) of SOX. These include, but are not limited to, Workload, Audit Resources, Audit Firms' Internal Monitoring, and Quality Performance Ratings and Compensation metrics at the applicable firm and/or engagement levels.

In addition, there are laws in various jurisdictions (e.g. France and Switzerland) that could have a significant impact on cross-border transfer of data and the comparability of such data. We strongly recommend the Board consult with others, including the International Forum of Independent Audit Regulators (IFIAR), to determine whether any law would prohibit a firm from providing information requested in the Proposed Amendments and further diminish comparability (or increase the risk of misuse) of affected metrics.

Our Form AP amendment experience has proved that calculations, such as those required to report metrics under the Proposed Amendments, are nuanced and complex. They demand a robust implementation support infrastructure to enable the reporting of reliable metrics. We strongly encourage the PCAOB to establish mechanisms like those used by other regulators or standard setters in related activities. For example, the PCAOB could establish a consultation mechanism like the SEC's Office of the Chief Accountant¹² (OCA) whereby audit firms can seek real-time interpretive guidance from PCAOB Staff who have the knowledge and expertise regarding implementation challenges and questions. Such a consultation process can be used to facilitate a comprehensive discussion regarding technical, application, and implementation matters and would result in communicating a conclusion and basis thereof. Additionally, the PCAOB could establish implementation taskforces like those that have been established by the Financial Accounting Standards Board (e.g. the Revenue Transition Resource Group). The taskforce could serve to address implementation questions and to inform the Board of transition challenges. We have identified throughout our letter areas that require significant clarification and incremental guidance or examples to support effective and consistent application. Such an implementation support infrastructure can help drive reliable reporting in the first instance and mitigate the need for costly and time-intensive corrections in the future.

¹² Refer to discussions regarding consulting with OCA on the OCA landing page, [SEC.gov | Office of the Chief Accountant](#).

We have provided comments based on our initial review and data-gathering. We strongly believe a principles-based framework providing flexibility for both the auditor and the audit committee to focus on the relevant information impacting audit quality is more meaningful than specified metrics that are context-dependent. However, if the Board adopts a standardized set of performance metrics, such as those proposed, we have provided our specific comments and observations pertaining to preliminary implementation challenges in the attached appendices. Given the extent of preliminary observations on the proposed metrics, we strongly encourage the Board to provide significant application guidance to support effective and consistent implementation.

Due to the extent of the Proposed Amendments, the simultaneous efforts to respond to PCAOB Release No. 2024-003, *Firm Reporting*, and the short duration of the comment period, we focused our attention on providing feedback on the proposed metrics and did not have the opportunity to provide more comprehensive feedback, including the cost of implementing and maintaining the requirements of the Proposed Amendments. Although our evaluation of the Proposed Amendments is ongoing, considering the pervasive scope and nature of the Proposed Amendments, we expect the compliance costs (e.g. system implementation, process development, training, testing and monitoring, reporting) to be substantial. The value of such costs is highly dependent upon the utilization of the metrics, which is unclear and unpredictable.

* * * * *

We appreciate the Board's consideration of our comments and observations. We would be pleased to discuss our observations with the Board and its staff at your convenience. We look forward to continuing our engagement with the Board and its staff in support of our shared commitment of investor protection and audit quality.

Sincerely,

KPMG LLP

KPMG LLP

Appendix I

Responses to select questions in the Release for which we had specific input follow. Where our responses correspond to multiple questions, we have grouped those questions together.

1. Would the proposed metrics, individually or collectively, provide useful information for investors, audit committees, or other stakeholders? Why or why not? How would stakeholders use the metrics?

Transparency is a key component of trust, and we are committed to our role in maintaining trust in the capital markets – but more is not always better. The Release states “the information will enable investors, audit committee members, and other stakeholders to make better-informed decisions.”¹³ This is supported by the Board’s position that the information will further public interest and protect investors in accordance with the SOX.¹⁴ However, how the proposed metrics specifically support investor protection and further the public interest is not apparent. Specifically, how the proposed metrics relate to audit quality, whether there is support or empirical evidence from investors and the public as to the need or use of the prescriptive metrics in the Proposed Amendments, or how the Board will use the information are not clear. As a result, there is great risk of investors making investment decisions based on unclear and misunderstood inferences about the quality of an entity’s financial reporting.

Further, the Board’s two most recent actions to expand public transparency about audits have not proved to provide information that is used by investors in a meaningful way. For example, studies have shown information in the existing Form AP is not used by investors in a way that influences their investment decisions.¹⁵ Related to Critical Audit Matters (CAMs), the PCAOB’s staff white paper also illustrated that CAMs are not driving decision making by investors.¹⁶

The lack of clarity about how the proposed metrics provide decision-useful information for investors along with Form AP and CAM experiences raise significant concern that the Proposed Amendments will have similar results. Mandating public reporting of information that is not used by investors to make informed investment decisions but results in substantial costs to comply is not in the public interest or consistent with investor protection objectives.

Even if the proposed metrics would be used by investors to make investment decisions, the proposed metrics are at great risk of being misunderstood. For example, discernable value to an investor of the

¹³ See page 24 of the Release.

¹⁴ See footnote 67 of the Release.

¹⁵ Doxey, Lawson, Lopez, and Swanquist (2021) "Do Investors Care Who Did the Audit? Evidence from Form AP" published in the *Journal of Accounting Research*; and Hux (2021) "How Does Disclosure of Component Auditor Use Affect Nonprofessional Investors' Perceptions and Behaviors" published in *Auditing: A Journal of Practice & Theory*. These studies illustrated that even while the information may improve the perception of auditors and financial reporting, investors are not using Form AP in a way that influences their investment decisions.

¹⁶ See, e.g., Michael J. Gurbutt and Wei-Kang Shih, Staff White Paper: Econometric Analysis on the Initial Implementation of CAM Requirements, Public Company Accounting Oversight Board (2020) in which the PCAOB staff found that some investors are reading CAMs and find the information beneficial but did not find systematic evidence that investors are responding to the information in the CAMs to alter their decision making. More recently, in a study by Burke, J.J., Hoitash, R., Hoitash, U. and Xiao, S, The disclosure and consequences of US critical audit matters. *The Accounting Review* (2023), evidence showed that “on average, CAM disclosures do not provide incremental information to the market.”

proposed engagement metric on percentage of audit hours attributable to partners and managers is not apparent. The example in the Release of how to calculate the metric shows 36% of time charged by senior personnel. The Release fails to provide any explanation as to how an investor might incorporate that metric into its investment decision. Does the 36% metric mean that the issuer has strong financial reporting capability, and its reporting is more reliable? Or does this level of involvement by senior members of the engagement team indicate poorer issuer capability around financial reporting?

It will likely be challenging for investors with an in-depth understanding of audit execution and audit firm structure and operations to make an informed judgment as the metrics lack a direct correlation to audit and financial reporting quality. Therefore, other reasonable investors with less understanding of audit-related nuances will likely be even further disadvantaged to understand the information and at greater risk of reaching inappropriate inferences. Injecting engagement-level metrics into the 'total mix' of information available to the public may create uncertainty and confusion about the implication of the metrics for investment decisions. Further, data aggregators may perform quantitative comparisons without reference to the relevant contextual narrative disclosure, further contributing to the risk of misinterpretation and misuse of the prescribed metrics. The Release does not provide explanation of how comparison of firm metrics across audit firms will inform investors' decisions. Further, there is no evidence in the Release that investors allocate capital based on the identity of the issuer's auditor.

Quality financial reporting is of keen interest to audit committees because of their fiduciary responsibilities under the federal securities laws and regulations. A quality audit helps the audit committee in its oversight role. In our experience, where audit committees determine information is needed to support their oversight role, it is requested and made available on a confidential basis. Making information publicly available that audit committees already have access to does not enhance their oversight of financial reporting or the audit. Further, there is no evidence in the Release that audit committees consider each of the metrics useful to auditor oversight.

We recommend defining audit quality and developing and implementing a principles-based approach¹⁷ to determine performance metrics to promote increased communication between the auditor and the audit committee about relevant, decision-useful metrics, and to allow for changes in metrics as audits and audit firms evolve to enhance audit quality.

For engagement-level metrics, the Board should leverage the existing corporate governance structure that places responsibility for oversight of the audit with audit committees by amending PCAOB AS 1301 to include a requirement for auditors to engage with audit committees as part of planning and agree on the information, including metrics, that the audit committee feels are necessary to fulfill its fiduciary obligations. This discussion could be centered around the principles-based framework and common definition of audit quality. Subsequent reporting to the audit committee on these metrics should then be communicated as part of the required communication on audit results. This approach enables active involvement by the audit committee in determining meaningful performance measures tailored to the specific audit and enables the two-way communication essential to provide the critical

¹⁷ This is supported, for example, by Pinello, Volkan, Franklin, Levationa, and Tiernan's (2019) investigation "The PCAOB Audit Quality Indicator Framework Project: Feedback from Stakeholders" published in the Journal of Business & Economic Research an audit quality indicator framework should be flexible and voluntary.

context necessary to fully understand the impact of specific metrics on the audit. It also aligns with existing legal requirements that places responsibility for auditor oversight with the audit committee.

3. Are there other considerations we should be aware of that would increase or decrease comparability at the firm level? For example, would it be helpful to have subsets of information available by size of the firm or by size of the issuers the firm audits?

4. Are there other considerations we should be aware of that would increase or decrease comparability of the engagement-level metrics? For example, would it be helpful to capture information at the engagement level by industry sector, region, whether it is a first-year audit, or other criteria?

We do not support further disaggregation of the proposed metrics as there are several factors impacting comparability and most will impact both the firm- and engagement-level metrics. Further, granularity and disaggregation of proposed metrics may not be meaningful without sufficient input from investors and audit committees (and the related revised economic analysis) to determine how the disaggregation supports investor protection and furthers the public interest. For example, some of the proposed engagement partner metrics are in isolation and may not be meaningful nor consistent with the ability to have assistance in fulfilling partner responsibilities as described in PCAOB AS 1201.04. Additionally, further disaggregation by industry, region, or other elements would similarly not be appropriate without further outreach to stakeholders on utilization or expanded economic analysis.

Each audit is unique in a multitude of ways (e.g. changes in IT systems, complexity or sophistication of IT infrastructure, transactions, industry, number of business lines, locations, and audit findings, including control deficiencies). These factors and more can significantly affect metrics in the Proposed Amendments in different ways and undercut meaningful comparability. Audit firm or issuer size alone does not necessarily correlate with the complexity or risk associated with audits. Therefore, breaking out information by firm and issuer size may oversimplify the landscape. Similarly, at an engagement level, sufficiently disaggregating audits to achieve maximum comparability is not possible. These concerns about comparability support our recommendation to remove the mandatory reporting of engagement-level metrics and only discuss such metrics with the audit committee.

We are supportive of limiting the requirement to report firm-level metrics for firms issuing audit reports with respect to more than 100 issuers in the reporting period. The issuer portfolio at those firms with less than 100 issuers is not sufficiently like those inspected annually to provide for valuable comparisons. Using a 100-issuer threshold is appropriate as there is precedent that this threshold appropriately balances scalability concerns with the need for investor protection. For example, this is the same threshold for firms inspected by the PCAOB on an annual basis as well as the threshold for firms requiring incremental compliance requirements in PCAOB QC 1000.¹⁸

Other factors impacting specific metrics are discussed below in our responses to questions on the individual metrics.

7. Should firms be permitted to provide narrative disclosure to provide context to the reported metrics? If not, why not? If yes, should narrative disclosure be allowed for all metrics or only certain ones? If limited, which ones?

¹⁸ See PCAOB QC 1000 paragraphs 28, 34a(1), and 63.

8. Should we place limits on the length or content of the narrative disclosure? If so, what should they be? Is a 500-character limit per metric appropriate? Should it be less or more? Should there be no limit?

As the proposed metrics are highly contextual, the ability to provide appropriate background is critical to mitigate the risk of misuse and misinterpretation. Certain of the proposed metrics are subjective in nature and lack comparability because of unique facts and circumstances. As noted, communication of metrics is more relevant and meaningful between the auditor and audit committee where an in-depth discussion can provide relevant context to the metrics. Allowing firms to include meaningful narrative disclosure to provide context and limit misuse or misunderstanding is important if the Board proceeds with public disclosure. These narratives are likely to warrant robust discussion of limitations of each metric for reasons mentioned throughout our comment response. Any character limit will not for an adequate explanation of the context and complexities associated with the metrics, and unnecessarily increases the likelihood of stakeholder misunderstanding or misuse of the metrics. Therefore, we recommend not limiting the length of the narrative disclosure. The necessary contextual disclosure, specifically at the engagement level, is likely to be considerable, significantly increasing the time incurred by engagement teams and firm resources, which will translate to incremental costs. We acknowledge lengthy narrative disclosures appears in conflict with our inference that the Board is concerned with such disclosures. However, we do not believe the objectives of the Proposed Amendments can be achieved without providing firms the ability to provide the context they believe necessary to enable stakeholders reading the disclosures to fully understand the metrics and their limitations. Decisions about the appropriateness of narrative disclosures should be based on achieving the objective of providing decision-useful information rather than concerns about length of the disclosure.

9. Are the definitions for partners, managers, and staff clear and appropriate? If not, how should they be changed?

12. Should other individuals involved in the audit (e.g., individuals in the firm's national office, engagement quality reviewers, employees of shared service centers, or individuals involved in loaned staff arrangements and alternative practice structures) be treated differently in the metrics? If so, how should they be considered in the definition of core engagement team?

Various roles were provided in the Proposed Amendments, many of which contained specific definitions (e.g. 'partner,' 'manager'). However, most firms have roles which do not clearly or obviously reconcile to the roles listed in the Proposed Amendments.

Further, whether and where certain individuals should be included in each metric as they move between audit support roles and engagement-facing functions is not clear (e.g. individuals in certain firm roles such as national office, centralized audit services, shared service centers, technology, etc. or non-audit functions). Additional guidance is needed to improve consistency in these areas.

In addition, further clarity is needed on the definition of 'participation in the audit' within the definitions of 'partner,' 'manager,' and 'staff'. We recommend the Board establish a minimal threshold in determining 'participation' that provides both clarification in application and mitigation of unintended noncompliance. For example, we do not believe exclusion of professionals that hold the following firm roles reduce the reliability of a given metric: firm leadership, national office, or specialist line of service individuals with limited participation during the year in any specific engagement.

For service center employees and whether they should be included in the definition of 'core engagement team,' the nature and use of centralized services and how service centers continue to evolve across a changing professional landscape needs to be considered. The lack of clarity of how individuals within these different roles meet the definition of participation will likely result in a significant lack of comparability over time and between firms. This reduces the meaningfulness of these engagement-level metrics (e.g. retention and tenure metrics) and the comparability across engagements, further supporting our recommendation to remove the mandatory reporting of engagement-level metrics and only communicate such metrics to the audit committee.

The Release also appears to provide an alternative definition of partners and managers on the engagement team compared to the Proposed Amendments, which is aligned to other PCAOB standards.¹⁹ We recommend providing clarity to avoid confusion if the intention is not to introduce a new definition.

The Release allows for flexibility with respect to the treatment of promotions across the metrics.²⁰ We support the use of practical accommodations and suggest the Board provide additional opportunities for such accommodations to address some of the more nuanced and technical application concerns raised in our response.

While there are some similarities across other PCAOB standards and rules, not having a defined set of terms applicable to all standards and rules causes challenges in execution and inconsistency in application. We recommend the PCAOB undertake a project to create a glossary of defined terms to support consistent use of terms throughout their standards and rules.

11. Should we consider adding a threshold to the definition of partners or managers who participated on the engagement team, such as a minimum percentage of hours worked on an audit? If so, what should that percentage be for partners and managers?

While we do not support public reporting of engagement-level metrics, should the PCAOB move forward with that aspect of this Proposal, we recommend all engagement-level metrics contain some level of thresholds. This will facilitate implementation while still supporting the objective of the metrics. For example, individuals who spend more than 10% of their time 'participating' on audit and attestation engagements would be included in the firm-level metrics. However, all engagement-level metrics should include thresholds similar to those used in defining the core engagement team. We also support making the use of thresholds by firms optional to provide flexibility in designing processes necessary to comply with the Proposed Amendments in a cost-beneficial manner based on the availability of existing information. This approach enables firms to be more precise in the measurement of certain metrics should they choose to include individuals below the thresholds.

Broadly, for the Proposed Amendments and the existing Form AP, we strongly recommend introducing thresholds and a concept of materiality to reduce unintended consequences of reporting amendments resulting from immaterial changes in estimates and unintentional errors. Amendments that do not meaningfully alter the total mix of information provided are time consuming, costly, and do not benefit the capital markets or impact investor protection. In fact, having multiple amendments for small

¹⁹ See page 32 of the Release noting how the proposed metrics would include partners and managers on the engagement team, which omits reference to specialists which are included in the engagement team in accordance with PCAOB AS 2101.A3.

amounts may ultimately be more confusing for investors and others reviewing the filings who are accustomed to revisions in financial reporting signaling new material information.

13. Should engagement quality reviewers be added to any of the proposed metrics? If so, which metrics and should they be added as a separate category or together with a group, such as the engagement team?

No. The inclusion of engagement quality reviewers (EQRs) in engagement-level metrics would be inappropriate as it may imply that they are part to the engagement team, which is inconsistent with PCAOB AS 2101.A3. We recommend excluding metrics at the engagement level related to the EQR.

14. Is the proposed definition of core engagement team appropriate? Are the proposed thresholds for core engagement team members appropriate?

While we do not support public reporting of engagement-level metrics, we support the alignment of part a) of the definition of 'core engagement team,' and the 'lead auditor' definition in revised PCAOB AS 1201 and AS 2101.

16. Is it appropriate to use the Form AP hours for the total audit hours in the metrics? If not, how should the hours be accumulated for the metric calculations?

Firm-level metrics based on the 'engagement team' personnel or the use of 'total audit hours' inherently include information obtained from firms other than the individual firm submitting the Form FM as it would include information from other auditors. We do not believe this is clear for users of these metrics and may be misleading to refer to them as 'firm' metrics. A firm's issuer mix and related utilization of other auditors could significantly alter these metrics and will result in a lack of comparability and will require significant contextual narrative disclosure. We recommend the firm-level metrics be limited to data related solely to the firm filing the Form FM and exclude information from other accounting firms.

Partner & Manager Involvement (questions 18-20)

We are supportive of the firm-level metric and agree that audit quality requires proper supervision and review by engagement team members. As disclosed in our Audit Quality Report (AQR), we currently monitor a ratio of partner hours to total team hours and manager hours to associate hours. However, we do not disclose these ratios of involvement as the comparability of this metric can be highly dependent on factors such as industry, company size, transaction volume, partner and manager turnover/rotation, reliance on other auditors, etc. Stakeholders will need appropriate context to interpret the results, therefore we recommend narratives not be limited to allow for this. As discussed above, there is a risk that stakeholders may be biased towards inferring that a quantitative metric for partner and manager involvement is a proxy for audit quality.

Additionally, the firm-level metric may be better represented and more meaningful if it excluded the related impact from other accounting firms and focused instead on the partner and manager involvement specific to the partner and managers of the reporting firm. We are also concerned that in situations where non-network firms are other accounting firms, both the firm- and engagement-level metrics would require information from outside the lead auditor's system of quality control. This supports our recommendation that firm-level metrics be limited to data related solely to the firm filing the Form FM.

Further disaggregation (e.g. engagement partner and other partners) does not provide any incremental value and would dilute or potentially misconstrue what can be inferred from this metric. This is an example where disaggregation of the engagement partner role is not likely to be meaningful due to the engagement partner's ability to have assistance.²¹ While we acknowledge partners and managers have distinct roles and responsibilities, separating their involvement in the metrics could create unnecessary complexity. Therefore, we recommend not disaggregating this metric any further.

For the engagement-level metric to achieve the Board's stated objectives, such metric would best be delivered through effective two-way communication between the auditor and the audit committee to provide the relevant and necessary context. Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Workload

22. Are the proposed descriptions and calculations of the firm-level metrics and engagement-level metrics for the engagement partner workload and partner (excluding the engagement partner), manager, and staff workload clear and appropriate? If not, why not?

We are supportive of the objectives of these metrics, but do not believe the proposed metrics will effectively achieve the intended objectives. The Board stated these metrics "may help audit committee members and other stakeholders understand the various activities competing for an engagement partner's time. The engagement-level information could be compared to the average quarterly workload for engagement partners within the firm or across firms."²²

As the proposed metrics do not provide information about the types of activities,²³ we do not believe it will provide an understanding of activities competing for an individual's time. Alternative measures, such as a utilization metric as reported in our AQR, may be more meaningful to reflect how a firm is measuring and monitoring the activities competing for our professionals' time. Further, we would caution against the usefulness of comparing the engagement-level metric to the firm-level metric as the reporting periods may not align (i.e. the firm-level metrics are based on calendar year versus engagement-level metrics being based on fiscal year) and the engagement-level metrics omit a portion of the calendar year.²⁴

To support the objective of this metric at the firm level, we propose a utilization metric be used instead of workload. Alternatively, if the proposed firm-level metric is retained, we recommend reporting only on an annual basis as it is not clear how the Board has demonstrated the benefit of a quarterly disaggregation outweighs the cost. Should the Board move forward with public reporting of engagement-level metrics, the objective can be achieved through reporting of the proposed Allocation of Audit Hours metric, and the incremental benefit, if any, of the proposed Workload metric would not outweigh the cost to prepare it. Specifically, as the proposed Workload metric excludes a portion of

²¹ PCAOB AS 1201.04.

²² See page 43 of the Release.

²³ For example as noted in the Release, hours incurred can relate to multiple activities such as on issuer and non-issuer engagements, training, practice development, staff development, or other firm activities.

²⁴ The engagement-level metric specifically calls for the related metric for "each of the preceding three fiscal quarters up to the issuer's fiscal year end," therefore, excludes information related to the first quarter.

audit effort (the period applicable to the company's first fiscal quarter), it is inconsistent with other measures reported on Form AP relating to total audit hours, which may lead to misinterpretations.

This is another example where further disaggregation of the engagement partner role is not likely to be meaningful due to the ability to have assistance in fulfilling partner responsibilities.²⁵

Refer to application and implementation questions in Appendix II, including clarification around how to treat individuals with role changes during the reporting period.

Audit Resources – Use of Auditor's Specialists and Shared Service Centers

24. Are the proposed descriptions of the firm-level and engagement-level metrics for use of (i) auditor's specialists and (ii) shared service centers clear and appropriate? If not, why not?

We support the objectives of these firm-level metrics, however, agree that "these are highly contextual measurements"²⁶ and believe this leads to a high risk of misunderstanding and misuse of these metrics.²⁷ For example, there may be a bias that a higher percentage of hours at a shared service center (SSC) may detract from audit quality; whereas, with proper oversight and coordination it may in fact increase quality by allowing core engagement team members to allocate more time and resources to areas that require more auditor judgment.

The understanding and usefulness of these metrics are further challenged by lack of comparability. Legal structures significantly influence whether various centralized groups meet the definition of a shared service center and will impact comparability of the SSC metrics. While we believe the concept of an SSC consists of a single legal entity (versus an organizational group or department), clarifying guidance is necessary to properly apply 'associated entity'²⁸ to the definition of SSC. For example, it is not clear as to whether 'associated entity' is intended to be consistent with the definition used in PCAOB Rule 1001 or the term as defined in SEC Rule 2-01 of Regulation S-X.

As with other metrics, industry, complexity, transactions, and other events will weigh heavily on the comparability of specialist metrics. Also, the objective of providing investors with a basis for discussion with management on the use of specialists or SSCs,²⁹ is misaligned and not practical as management will rarely have adequate information necessary to respond to questions about the execution of the audit. Further, our experience demonstrates that investors almost never take advantage of the opportunity presented at annual shareholder meetings to ask auditors questions.

Taking each metric individually, we are supportive of the firm-level metrics and note that we include the number of specialist hours used in our audits as well as the ways in which our audits are benefited by centralized services in our AQR. On the other hand, the firm-level metric regarding use of SSCs is unlikely to be useful across the large firms as there will be very few, if any, issuer audits with no involvement.

²⁵ PCAOB AS 1201.04.

²⁶ See page 49 of the Release.

²⁷ See, for example, page 51 of the Release.

²⁸ The definition of SSC for Form AP recently changed with the addition of "associated entity" as noted in the Form AP guidance released on November 21, 2023.

²⁹ See pages 49 and 51 of the Release.

At the engagement level, due to the contextual nature, lack of comparability, and high risk of misunderstanding or misuse, these metrics are best discussed between the auditor and audit committee. This could complement communications provided to audit committees about the use of specialists and audit participants³⁰ to allow for the type of robust discussions intended by AS 1301 and meet the objective of the Proposed Amendments.³¹

Further disaggregation by industry will be overly burdensome and will not increase the value to stakeholders.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

27. With respect to the proposed metrics related to shared service centers:

a. The description of what is a shared services center is consistent with the description in the Form AP guidance. Should the description be more broad to include other arrangements such as (1) those that are captive to an individual firm, where the staff are employees of the firm, (2) service centers that have a separate legal entity but dedicated solely to the support of an individual firm, (3) service centers that are external to a firm but provide similar services to several affiliated or non-affiliated firms, (4) service centers that are located in the same jurisdiction as a firm, or (5) solely those that are located in another jurisdiction? Why or why not?

While we are skeptical about the usability of this metric at the engagement level, the Board should determine which arrangements it intends to capture and use a consistent definition of SSC throughout its standards and related rules to avoid confusion and lack of comparability. See our response to Questions 12 and 24, where we describe our concerns about this metric at the engagement level. For the definition of SSC, we recommend the Board develop a more principles-based definition to allow for continued evolution in firm arrangements and innovation in how audits are delivered. Prescriptive definitions create unnecessary complexity and increase compliance costs.

Experience of Audit Personnel

28. Are the firm-level and the engagement-level metrics we are proposing for experience of audit personnel clear and appropriate? Should relevant experience be limited to auditing experience rather than including all experience at a public accounting firm? Conversely, is there other relevant experience that would be valuable to include when determining years of experience (e.g. experience at a relevant regulator or standard setter)? If so, how should that experience be measured?

While we understand the objective, we are not supportive of the proposed metrics as there is great potential for misunderstanding and misuse with little value to be derived, as such we recommend removing these metrics from any reporting. We currently do not provide reporting of audit personnel experience in our AQR for these reasons. Audit committees have access to this information at the

³⁰ PCAOB AS 1301.10(a) and AS 1301.10(d).

³¹ See page 49 of the Release.

engagement level, and we agree with the commentators who suggested there would be little to no benefit from the firm-level metric.³²

More years of experience may be assumed to translate to higher potential for quality, however many factors other than time contribute to an individual having the appropriate experience to serve as an engagement partner or on an engagement team. The Release suggested that these metrics would provide “for a uniform method of calculation and [enable] comparisons across firms and jurisdictions.”³³ However, these metrics may lead to stakeholder biases that may not be correlated to higher quality and the comparisons the Board suggests may be inappropriate. Incrementally, the emphasis on years of experience within these metrics and the industry experience metrics overlooks the centrality of technology in the future. This underscores our support for a more flexible principles-based approach.

In addition, firms will incur incremental cost to implement processes or system changes to accumulate, monitor and validate historical experience for all employees. While most firms will have human resource systems tracking the period of employment at their firm, this would not capture the number of years individuals may have spent at a different network firm or even a non-network firm. Further, if implemented, experience metrics like this should include relevant experience outside public accounting (e.g. relevant regulatory, standard-setter, and industry experience). This would require quantification, tracking, and verification, and the value possibly achieved from these metrics lack support or empirical evidence to outweigh the cost to implement.

Refer to application and implementation questions in Appendix II, including clarification around how to treat individuals with role changes during the reporting period.

Industry Experience of Audit Personnel (questions 29-35)

While we agree industry experience is helpful in the execution of a quality audit, we have significant concerns about the proposed metrics including the susceptibility for misunderstanding and misuse, potential unintended consequences on competition, and the ability for firms to implement the Proposed Amendments from an operational perspective.

There are many industries where accounting and audit risks overlap with those of other industries (e.g. consumer products and services and retail). Therefore, these metrics can, without that context, make a team or firm appear insufficiently experienced when that is not the case. Similarly, the use of the three- and five-year thresholds implies that years of experience under the threshold are omitted, which again would contribute to appearing less experienced.

Evaluating an individual’s competency to serve an engagement is done through multiple factors and considerations, of which industry experience is only one. This is reinforced through QC 1000.47 noting that industry is one of several factors in considering the competence of engagement partners and other firm personnel in fulfilling their respective assigned engagement roles. The focus on industry experience alone, may result in misguided stakeholder bias for or against individuals on an engagement team or individual firm.

Further, the Proposed Amendments oversimplify an individual’s diversity of experience. Transitioning between similar industries or from engagement-facing to national office or centralized service roles is

³² See page 57 of the Release.

³³ See page 57 of the Release.

common throughout a professional's career. Additionally, some professionals transition between public accounting and private practice. In each of these roles, an individual would likely have gained valuable experience in number of industries or specialties, but it would be a significant challenge to retroactively categorize them into the Industry Classification Benchmark (ICB) classifications. The Release suggests relevant experience could include things like 'fair value estimates in the industry,'³⁴ but since fair value estimates is not an industry and fair value estimates may be encountered in all industries, it is highly likely experience like that would lead to inconsistencies and less relevant data.

Individual career lookback and quantification would also need to be completed at the global network level, both to facilitate reporting for each registered firm and to allow for reporting of data from other accounting firms for both the firm- and engagement-level metrics. These requirements would be overly onerous and implementation across a network of firms is not practical. Should the Board decide to move forward with these metrics, we recommend limiting the engagement-level metrics to the core engagement team.

The Proposed Amendments also create unnecessary complexity by requiring industry categorization based on the ICB. While we appreciate the Board rejected the use of the Standard Industrial Classification system (SIC) because it has not been updated since the 1980s,³⁵ the SIC system is required by the SEC to be used by issuers. Having different industry classifications for auditors from that required for issuers creates confusion and increases the likelihood of misunderstanding and misinterpretation, which further supports our recommendation to remove these metrics for reporting requirements.

Mandating the use of the ICB (or any standardized list of industries) to classify industries and quantify the experience of all personnel is not practical. This would require firms to incur significant incremental costs to implement and maintain new processes and/or systems and databases to evaluate each employee's career history against this subset of industries and the years in which each person exceeds the hours threshold. Records are not available to validate this information, and the type of documentation required for self-reporting is not clear.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Retention and Tenure

36. Are the descriptions and the calculations of the proposed (i) retention rate and (ii) headcount change at the firm level and engagement level clear and appropriate? If not, why not?

We support the firm-level metrics and acknowledge the importance of assessing the readiness and availability of the firm for conducting effective audits. While we currently provide firm-level annual headcount by level, we do not report on retention rates.³⁶ The Board should determine how these proposed metrics at the firm-level correlate with audit quality before requiring such metrics to be publicly reported.

³⁴ See page 63 of the Release.

³⁵ See page 64 of the Release.

³⁶ See page 29 of KPMG's [Audit Quality Report](#).

Related to the firm- and engagement-level headcount change metrics, we recommend renaming the description to align with the calculation. The metrics report current year headcount as a percent of the prior year headcount, not a change as a percent of the prior year. The current description may cause confusion and misunderstanding among stakeholders.

At the engagement level, we do not support these metrics. The engagement partner is responsible for determining that sufficient and appropriate engagement resources are assigned or made available to the engagement team in a timely manner and taking responsibility for those resources. Further, prior year information (as would be reported under the Proposed Amendments) is not relevant in evaluating the quality of an engagement team in the current year. Considering the level of context that may be needed to sufficiently explain these engagement-level metrics, there is a significant risk of misinterpretation or misuse of the information by stakeholders. Communication of this information is most relevant and effective as two-way contextual dialogue between the auditor and the audit committee³⁷ based on engagement-specific facts and circumstances.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II, including the complete and accurate determination of inputs into the calculations and other questions associated with the elevated complexities of the defined metrics.

38. Are the description and the calculation of the proposed tenure on the engagement at the engagement level clear and appropriate? If not, why not?

We are not supportive of the engagement-level tenure metric as there is a significant risk of misuse and misunderstanding given mandatory rotation requirements across key members of the engagement team that might not be well understood or considered when comparing across engagements. Additionally, it is not clear how this metric relates to supporting audit quality.³⁸ For example, there are various factors resulting in engagement team turnover, including rotations in a national office or other audit quality roles that may be adversely perceived by stakeholders in a tenure metric despite enhancing audit quality through acquiring rotational-specific expertise. Additionally, refer to the above discussion related to the engagement partner's responsibilities for engagement resourcing and audit committee communications.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Audit Hours and Risk Areas (questions 41-44)

We are not supportive of the audit hours and risk area metric as we have concerns pertaining to the inoperability and lack of comparability that preclude this metric from achieving the stated objective to provide information regarding the extent to which partners and managers focused on areas of higher risk.³⁹ Moreover, this metric implies the measurement of audit effort solely focuses on the hours

³⁷ PCAOB AS 1301.10 requires that we communicate the overall audit strategy to the Audit Committee, which includes matters such as planned involvement of audit participants and related timing and location.

³⁸ Page 71 of the Release explains "The disclosure of engagement team members' tenure is intended to add to the mix of information (i.e. information provided in conjunction with all the metrics proposed in this release), and not to suggest a specific correlation between tenure and audit quality or between tenure and auditor independence."

³⁹ See page 80 of the Release.

incurred in a specific audit area, and therefore, does not consider the evolving role of technology in the audit. The use of technology can significantly contribute to audit effort, resulting in diminishing meaningfulness on hours incurred for a specific audit area as a measurement of audit quality.

From an operability perspective, we do not believe firms consistently track time incurred by partners and managers for these specific audit areas. Obtaining, maintaining, and testing reported time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates, would be challenging and complex. Firms would need to establish systems and processes to track and record this specific information, which would require significant additional resources and effort. Additionally, reporting this information would require coordination across firms for audits involving other auditors, who may be using different systems to track the underlying information. We recommend the PCAOB further consider the feasibility and practicality of obtaining this information.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II, including how audit hours related to the risk of management override or indirect impacts on the audit effort around critical accounting estimates, critical accounting policies, and significant risks should be treated.

Allocation of Audit Hours (questions 45-47)

We are supportive of the objective of the allocation of audit hours metrics at the firm level. Pulling work forward, where feasible and appropriate, enables engagement teams more time to focus on areas of highest risk in the audit. As disclosed in our AQR,⁴⁰ pulling work forward is central to our promise of continual improvement. While we are supportive, we note that the comparability of these metrics can be highly dependent on factors such as industry, type of audit (i.e. financial statement audit or integrated audit), and transaction timing and volume, among others. Stakeholders will need appropriate context to interpret the significance of these metrics. We also believe there is a risk that stakeholders may be biased towards inferring that a quantitative metric for allocation of audit hours is a proxy for audit quality, further supporting the need for sufficient appropriate context to interpret the results. The firm-level metrics will provide information on trends showing the firm's effectiveness at moving work out of traditionally busier times. For the engagement-level metrics to achieve the Board's stated objectives, such metrics would best be delivered through effective two-way communication between the auditor and the audit committee to provide the relevant and necessary context.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Quality Performance Ratings and Compensation

48. Are the proposed metrics and calculations for quality performance ratings and compensation clear and appropriate? If not, why not? Are there other metrics that would be appropriate? If so, what are they? Is there another way to calculate the correlation between partner performance and compensation? If so, please provide an example.

⁴⁰ We monitor and disclose in our AQR the percentage of planned hours pulled forward for each of the three most recent years (relative to Audit Year 2020).

We are not supportive of the firm-level metrics related to quality performance ratings and compensation given the lack of comparability resulting in potential misuse of the metrics and the risk of disclosing confidential information.

Comparability of the partner compensation input into this metric is impacted by several factors including, but not limited to, firm structure, the definition of compensation, and whether the role of partner includes other firm roles such as non-equity partners or managing directors, which may have different compensation characteristics to equity partners.⁴¹

Additionally, partner compensation is confidential business information that is not appropriate to publicly disclose without giving due consideration to an accounting firm's reasonable assertion that the information is proprietary and protected from disclosure under SOX 102(e).⁴² The assertion in the Release that proprietary information is only something equivalent to a 'trade secret' is inconsistent with the recognized protection for business confidential information from disclosure under FOIA by the SEC. Further, based on what information would be disclosed and publicly available under the Proposed Amendments, it may not be challenging for users to determine a specific individual's compensation for partners of smaller firms auditing a limited number of issuers. Variability also exists between firms in establishing quality ratings and those may also change over time.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

53. Would it be more appropriate to disclose firm policies relating to partner compensation and how quality performance is measured and incorporated into the firm's policy, rather than reporting the proposed compensation and quality performance rating related metrics? Why or why not?

We strongly believe it would be more appropriate to disclose firm policies related to partner compensation and quality performance ratings and we are supportive of disclosing how a firm values its commitment to quality.⁴³ We include qualitative disclosures related to our performance measurement, advancement and compensation within our annual Transparency Report, which illustrates our framework for how we consider impacts to quality on performance and compensation.⁴⁴ Disclosing these policies would demonstrate the firm's quality commitment and the value it places on quality while alleviating the aforementioned comparability and confidentiality concerns.

Audit Firms' Internal Monitoring (questions 54-57)

We are supportive of the firm-level metrics to report audit firm internal monitoring, however, have significant concerns with reporting such a metric at the engagement level. As we disclose in our AQR and Audit Transparency Report,⁴⁵ we have a suite of internal monitoring activities at the firm-level that enhance audit quality and drive consistency in helping engagement teams continue to improve over

⁴¹ Refer to our comments on question 12 related to the definition of "partner" in the Proposed Amendments.

⁴² See SOX Section 101(c)(5).

⁴³ See page 87 of the Release outlining the objective of the metric.

⁴⁴ See page 16 of [KPMG's Audit Transparency Report](#).

⁴⁵ See pages 28 and 29 of [KPMG's Audit Transparency Report](#) and page 18 of [KPMG's Audit Quality Report](#).

time. This illustrates our commitment to monitoring activities and to providing transparency to stakeholders. The various initiatives within this suite of monitoring activities continue to effectively increase positive audit quality results and complement the post-engagement monitoring programs. We would need to provide sufficient narrative context of the proposed metrics in the context of our overall monitoring activities to be meaningful and understandable for stakeholders.

A more meaningful threshold for reporting deficiencies in internal monitoring at the firm level would be to narrow the reporting to those matters that would meet the definition of the PCAOB's Part I.A Inspection Observation.⁴⁶ Part I.B Inspection Observations,⁴⁷ as defined by the Board, are not of the same level of significance as those of Part I.A. Including all engagement deficiencies identified – regardless of consideration of the significance – may provide users with misleading information if sufficient context is not provided. Providing this context at the firm level may be difficult because of the variety of drivers and considerations inherent in the underlying details. If the Board elects to retain the requirement to report all engagement deficiencies, as defined, we strongly recommend the Board amend the requirement to clearly distinguish between those deficiencies akin to Part I.A observations versus Part I.B observations.

In addition to our broad objection to engagement-level metrics, we are not supportive of publicly reporting an internal monitoring metric at the engagement level as we have significant concerns around the risk of misuse of this metric and do not believe there is sufficient evidence supporting the need for this level of public transparency. There is variability in the structure of each firm's internal monitoring program and historical monitoring results are not decision-useful indicators of current year audit quality. The level of context at the engagement level required to provide meaningful insight into the metric would be substantial. As users of the information may inappropriately question whether the associated audit report remains reliable, such contextual narrative may need to include language limiting the use of the metric to mitigate the risk of misinterpretation.⁴⁸ Further disaggregation of this metric such as additional categories of engagement deficiencies or identification of the standard or rule is not incrementally decision-useful to stakeholders and introduces unnecessary costs of compliance. These factors elevate the risks around comparability concerns and misuse. Additionally, audit committees currently have access to this information, and we strongly believe the ability to deliver this information through effective two-way communications between the audit committee and the auditor is critical in providing necessary context.

We note that the PCAOB's inspection reports maintain confidentiality by not disclosing the specific issuers being reviewed and for good reason. Disclosure of issuer identity may raise concerns about the disclosure of potentially sensitive or confidential information and could result in investors drawing

⁴⁶ Defined as "Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR."

⁴⁷ Defined as "Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules."

⁴⁸ For example, see similar context included in the auditors' report related to CAMs noting that the communication of CAMs does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate. See PCAOB AS 3101.15.

inappropriate conclusions regarding the quality of an issuer's financial reporting and disclosures. It is inconsistent with the principles of the PCAOB's own inspection regime to impose a requirement on audit firms to identify specific issuer engagements selected for monitoring and report identified deficiencies.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Restatement History (questions 58-63)

We are supportive of the objective of these firm-level metrics as they provide meaningful information to stakeholders, and we currently provide similar information in our AQR. However, we recommend focusing the metrics to report on reissuance restatements and reissuance of management's report on ICFR to provide the most meaningful and decision-useful information to stakeholders. Reporting of revision restatements should not be required because such restatements are not material to the prior periods and to report them suggests an inappropriate level of importance to information deemed immaterial.

Further, multi-year restatements should not be based on each year impacted by the restatement. Rather, they should be based only on the initial year audited. Reporting the metrics based off each year impacted, as currently proposed, reduces understandability and comparability as it would misalign with how the audit was classified when reporting the metrics in the initial year the audit report was issued (metrics (ii) and (iii)).

Additionally, three years, implemented on a prospective basis upon adoption, is an appropriate number of years to require reporting of these metrics and would still meet the Board's intended objective. Three years would be consistent with an issuer's reporting of periods in an annual report in accordance with SEC rules and regulations. Further, as restatement information is publicly available, and often analyzed by different data aggregators, focusing on three years is appropriate as further analysis can be performed with publicly available information if desired. The proposed five-year period would also pose operational challenges (e.g. newly implemented monitoring and communication protocols with successor audit firms and previously audited companies) that do not enhance the quality of the metrics.

Because restatement information at an issuer level is already publicly available, we do not support public reporting of engagement-level restatement metrics.⁴⁹ Such reporting would be redundant with information already available to stakeholders and therefore result in incremental costs with no corresponding incremental benefits.

Refer to additional questions and concerns regarding the implementation of the proposed requirements within Appendix II.

Reporting

68. Rather than reporting on Form FM, should firms report firm-level metrics, as of March 31 on Form 2, which is due on June 30? If so, why?

We support reporting firm-level metrics on the separate Form FM, as proposed. However, the filing deadline for Form FM should align with the filing timeline for Form 2 of three months. Therefore, we

⁴⁹ The SEC's ['clawback rules'](#) require such revision restatements to be publicly disclosed (via Tick Box 1 and Tick Box 2) in the relevant filing when the error was identified.

recommend the filing deadline for Form FM be amended to December 31. We also recommend Form FM be amended to explicitly include the definitions of the metrics and metric formulas to provide pertinent information to enhance the context and understandability for users.

Inclusion of Metrics in the Audit Report (questions 73-76)

We do not believe requiring the inclusion of any firm- or engagement-level metrics in the auditors' report is appropriate.

The inclusion of firm- or engagement-level metrics within the auditors' report would not be aligned to the objectives in accordance with PCOAB AS 3101.04. The audit report serves to provide an independent opinion on the financial statements and internal control over financial reporting, if applicable. Adding the proposed metrics could potentially detract from the clarity and purpose of the report. The incorporation of the metrics accompanied by contextual narratives necessary to provide sufficient understanding of a metric could be misconstrued to suggest the auditor's objective and reasonable assurance extends to such metrics.

Operationally, much of the data for these metrics is only available as time (hours) is reported and after the auditors' report is issued. Therefore, reporting these metrics in the auditors' report will require significant estimation that will negatively impact the reliability of the metrics. Further, the reallocation of resources and time from procedures and efforts to support an audit report opining on an issuer's financial statements to preparation of metrics under the Proposed Amendments during the completion phase of an audit contradicts the objectives stated within the Release and detracts from audit quality.

Documentation

79. Is the proposed documentation requirement clear and appropriate? If not, why not?

The documentation requirements for the firm-level metrics are not clear. While the Release indicates firms would be required to retain documentation similar to the 'experienced auditor' threshold specified in PCAOB AS 1215,⁵⁰ there are no explicit documentation requirements within Proposed Rule 2203C, and Form FM Instructions related to firm-level metrics.

We interpret the lack of explicit documentation requirements for firm-level metrics to suggest the Board believes the documentation requirements in QC 1000.83 apply to firm-level metrics. While QC 1000.83 includes a concept of an 'experienced auditor' understanding, it does not explicitly refer to PCAOB AS 1215. Therefore, we recommend the Board specifically identify the documentation requirements to apply to firm-level metrics in Form FM.

Economic Analysis

90. Is the literature cited for the baseline fairly represented? If not, please explain.

The economic analysis is incomplete. Several studies on Form AP used by investors are excluded from the baseline.⁵¹ Further, there is a lack of academic evidence as to how investors will use audit quality

⁵⁰ See page 116 of the Release.

⁵¹ See for example, Doxey, Lawson, Lopez, and Swanquist (2021) investigate "Do Investors Care Who Did the Audit? Evidence from Form AP" published in the Journal of Accounting Research, and Hux (2021) considers "How Does Disclosure of Component Auditor Use Affect Nonprofessional Investors' Perceptions and Behaviors" published in Auditing: A Journal of Practice & Theory.

indicator (AQI) disclosures, what information would move or change decision making (in the event a revision is needed), or whether the benefits of disclosure outweigh the potentially significant costs (e.g. increases in fees due to effort, revisions, and potential litigation/risk).⁵²

92. Have we appropriately described a problem and how the proposal would address the problem? If not, how can we improve the analysis?

The Board has not established how each identified stakeholder requires the information reported within the proposed metrics and how such stakeholders will use these metrics. Without a definition of audit quality and a principles-based framework, the purpose and use of the metrics lack consistent correlation to stakeholders' needs. While the Release specifies that changes to AQI should not be viewed as a positive or negative signal of audit quality, there is no empirical evidence that investors will not inappropriately use this information to the detriment of the issuer. Additionally, some studies cited in the Release feature investors or investor groups, who may be not representative of the broader population of investors.

Additionally, some of the data is available and already being provided to key stakeholders. For example, audit committees can request this information and it is not clear what information they or investors deem most relevant to decision making because there is little research or data examining such topics referenced in the Board's needs analysis. Further, the PCAOB already collects much of the data through their annual data request and engagement profiles for inspected audit engagements. How the PCAOB intends to use this data incrementally to what the PCAOB already receives is not clear. Accordingly, the significant incremental costs associated with the Proposed Amendments do not appear to have corresponding benefits that outweigh such costs.

99. Have we appropriately described the costs, including costs to smaller firms or issuers? If not, how can we improve the analysis?

There are substantial incremental costs that are not sufficiently considered in the PCAOB's analysis. Throughout our response we have raised numerous concerns with the Proposed Amendments, all of which have an associated cost – either to audit firms, audit committees, issuers or the market broadly. While the Release acknowledges costs associated with firms building an appropriate infrastructure or investors trying to understand and integrate proposed metrics into their decision-making, such considerations are largely theoretical and not sufficiently detailed.

For example, the Release attempts to quantify cost based on public research of ERP system implementation (approximated to be \$363M - \$506M per firm). However, there is no quantification of costs associated with the reporting⁵³ of that data at the level of accuracy expected for investor reliance (e.g. higher litigation risk) or level of precision required for compliance with the Proposed Amendments (e.g. cost of revisions and amendments). Incremental costs to audit committees related to potential increases in director liability as a result of misuse due to misinterpretations of the metrics by the audit committee in their oversight role also do not appear to have been considered. The economic analysis

⁵² See, for example, a study by Brown and Popova (2019) examines how students (proxying for non-professional investors) interpret AQI data consisting of trends in engagement specialist use year-over-year, the overall percentage of compliance of internally inspected engagements across the firm, and the number of restatements across the firm in each of the last three years.

⁵³ As we note in our Executive Summary, these include, but are not limited to, global process changes to accumulate, process, and validate the data.

also excludes the significant direct costs that investors are likely to incur resulting from investment decisions made based on misunderstood metrics or inappropriate inferences they make based on the reported metrics.⁵⁴

We also believe the level of timely coordination with other auditors to compile complete and accurate data appears to be omitted from the analysis. Absent wholistic consideration of global implementation challenges associated with new and modified processes and systems to compile, aggregate, calculate, and test the information across other auditors, a large element of the operational challenges and overall cost is not considered.

Further, there is minimal discussion of the potential costs associated with amendments resulting from immaterial errors along with limited acknowledgement of how misapplication or misinterpretation of this data will raise costs for audit firms, issuers, and investors. Globally, firms outside the US may also need to duplicate efforts or calculate similar metrics differently to comply with their home jurisdictional requirements that may achieve similar objectives to the Proposed Amendments and such costs related to these redundant requirements were not included in the economic analysis. We recommend the PCAOB provide accommodations for non-US firms reporting metrics addressing similar objectives to allow for those firms to use the reporting in their jurisdiction to satisfy this PCAOB reporting requirement. Finally, public disclosure of strategic information and trends may negatively affect the otherwise normal operation of a competitive marketplace and such costs are also not reflected in the economic analysis.

Based on the scope and pervasiveness of the Proposed Amendments, broader research and outreach to quantify such potential costs to investors, issuers, and the capital markets as a whole is critical.

Effective Date

111. Would the effective dates described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

We estimate a minimum of three years will be needed to support effective implementation of the Proposed Amendments. The transition to reporting metrics under the Proposed Amendments would require changes to existing processes, systems, and documentation on a global scale. Firms will need sufficient time to adapt their processes, train professionals, and establish and test appropriate systems and controls to capture and report the required metrics accurately and timely. We also recommend the Board pilot a transitional model, like the approach taken by the Financial Reporting Council (FRC) in the United Kingdom. Specifically, we recommend the PCAOB initially allow the firms to confidentially report firm-metrics to the PCAOB. This initial period can be used to collect feedback, provide meaningful transition guidance to firms, and evaluate the use and value of each firm-level metric prior to implementing public reporting. This may reduce certain operational challenges and support a more effective implementation.

The implementation efforts for PCAOB AS 1000 and PCAOB QC 1000 will put incremental strain on resources otherwise able to plan and execute the implementation of the Proposed Amendments. Simultaneous standard-setting activities apply significant pressure on a firm's system of quality control

⁵⁴ See, for example, a recent article by Lee and Zhong (2022) that documents how investors incur significant information processing costs with existing public information. If investors do not have the means to appropriately process information, misunderstandings or misuse of metrics could lead to inefficient consequences including failure to ratify quality auditors, higher cost of capital for issuers, etc.

and its professionals. We recommend the Board considers the collective standard-setting activities and various implementation dates when evaluating the time needed by firms.

Appendix II

We continue to believe it is best to use two-way communications between the auditor and the audit committee for identifying information, including metrics, necessary to fulfill audit committees' fiduciary obligations. However, if the Board adopts the Proposed Amendments as written, we submit the following Appendix II implementation questions and considerations that we have identified to date during the limited comment period. Accordingly, we acknowledge this is not an exhaustive list of challenges associated with complying with the proposed metrics. A pilot period is necessary to fully identify concerns and questions to achieve effective implementation. This emphasizes the need for an extended effective date of at least three years after the approval of the Proposed Amendments. Furthermore, providing implementation resources during that period would further increase the likelihood of successful implementation (see response to Question 111 in Appendix I).

In addition, the questions and considerations below highlight certain complexities associated with the metrics and reinforces the need for a materiality concept to be integral to developing an operable set of reporting metrics. Although a materiality concept, on its own, will not eliminate the challenges currently identified and those that are unknown, it may help reduce confusion to investors and other stakeholders resulting from the need to report amendments caused by immaterial changes in estimates and unintentional errors.

Preliminary implementation and application questions/observations applicable to multiple metrics:	
Firm-level metrics based on the engagement team personnel or 'total audit hours' inherently include information that would need to be obtained from outside of the firm submitting Form FM	We do not believe this is clear for users and may be misleading to refer to them as 'firm metrics.' We have classified these metrics as 'firm +' within the levels in the table below. As indicated in the executive summary and in response to question 16 in Appendix I, we recommend such metrics be limited to data related solely to the firm filing the Form FM to provide meaningful firm-level information.
Personnel changes	How personnel changes should be treated is not clear. This includes changes between roles, service lines, participation in an audit occurring as part of a SSC, etc. Additionally, how changes resulting from new hires and terminations are to be treated in certain metric calculations is unclear. In many cases further guidance is needed to determine whether and how an individual should be included in the metric.

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
Partner and Manager Involvement	Firm + (Item 4.1)	<ul style="list-style-type: none"> • This metric relies on the definition of 'partners' and 'managers.' See our implementation questions and related recommendations regarding these definition in the response to Questions 9 and 12 in Appendix I. • It is not clear why individuals with de minimis involvement in the audit would be included in this metric. See our implementation challenges and related recommendations regarding participation in the audit in response to Questions 9, 11, and 12 in Appendix I. • This metric is an example where clarification regarding how personnel changes should be treated is necessary for effective implementation. Refer above to 'Preliminary implementation and application questions/considerations applicable to multiple metrics.'

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
		<ul style="list-style-type: none"> This metric would require data aggregation first at the engagement level to support the firm-level calculation. This challenge is exacerbated by the requirement to use total audit hours, which relies on information from other auditors. We recommend the Board consider this data collection and validation within their economic analysis and consider whether the use of other auditor information is necessary to meet the Board's objective.
	Engagement – total audit hours (Item 6.1)	<ul style="list-style-type: none"> Refer to the incremental implementation questions/considerations identified above within the firm-level metric.
Workload	Firm (Item 4.2)	<ul style="list-style-type: none"> How should personnel changes be treated in determining an average number of hours by defined role? For example, should this be based on one's role at the start of the quarter, end of the quarter, or an average within the quarter? As these metrics distinguish between 'engagement partners' and other 'partners,' it is not clear how to treat individuals that may be an engagement partner on a single engagement for a portion of the year. For example, would that individual change categories for the quarters they do not serve at least one engagement as engagement partner? We recommend the Board consider whether it is necessary to distinguish the engagement partner workload separately from other partners. Metric (ii) relies on the definition of 'partners,' 'managers,' and 'staff.' See our implementation questions and related recommendations regarding these definitions in the response to Questions 9 and 12 in Appendix I. As metric (ii) is based on definitions of 'partner,' 'manager,' and 'staff,' which determination is based on 'participation in the audit,' it is not clear whether and where certain individuals should be included in this metric as they move between audit support and engagement-serving functions (i.e. participate in an audit in one quarter, but move out of an engagement-service function in the next quarter). Clarification of how personnel changes should be treated and how individuals serving in both audit support and engagement-facing roles functions should be considered is necessary for effective implementation. See our implementation challenges and related recommendations regarding 'participation in the audit' in response to Questions 9, 11, and 12 in Appendix I.
	Engagement – engagement partner, core engagement team (Item 6.2)	<ul style="list-style-type: none"> Proposed instructions to Form AP state these metrics are provided for "the <i>portion</i> of the final fiscal quarter of the engagement through the issuance of the audit report" (<i>emphasis added</i>). However, the calculation represents the period from Q4 through to the audit report date, which is a period subsequent to the final fiscal quarter. Labeling this metric as a portion of Q4 may be misleading and requires clarification. As metric (ii) is based on the definition of 'core engagement team' see our implementation challenges and related recommendations regarding the definition in response to Questions 9 and 12 in Appendix I. Refer to the incremental implementation questions/considerations identified above within the firm-level metrics.
Audit Resources – Use of Auditor's Specialists and	Firm + (Item 4.3)	<ul style="list-style-type: none"> Is the numerator supposed to include engagements for which specialists are not used by the lead auditor but are used by other auditors? These metrics would require data aggregation first at the engagement level to support the firm-level calculation. As the reporting period for the firm-level metrics (i.e. 12-month period ended September 30) is different than the engagement periods for which total

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
Shared Service Centers		<p>audit hours are calculated for Form AP, this creates challenges with data collection and validation for different periods. These metrics also rely on information from other auditors. We recommend the Board consider this data collection and validation within their economic analysis and consider whether the use of other auditor information is necessary to meet the Board's objective.</p> <ul style="list-style-type: none"> It is not clear why SSCs or Specialists with de minimis involvement in the audit would be included in these metrics. See our implementation challenges and related recommendations regarding thresholds and a concept of materiality, in addition to participation in the audit, in response to Questions 9, 11, and 12 in Appendix I. (Note: this comment also applies to the engagement-level metrics) Why engaged specialists would be excluded from the total hours calculated in Form AP but are proposed to be included in the hours provided by specialists in the proposed metric is unclear and creates unnecessary inconsistency. We recommend including engaged specialists within the definition of total audit hours. (Note: this question also applies to the engagement-level metric)
	Engagement – total audit hours (Item 6.3)	<ul style="list-style-type: none"> The proposed specialist metric in Form AP is labeled as <i>'percentage of total audit hours provided by specialists'</i> (<i>emphasis added</i>). However, this metric includes total audit hours + auditor specialist hours. We recommend the metric in Form AP be renamed to avoid being misleading or misinterpreted. As Form AP Instructions include considerations around estimates, it is not clear why the Proposed Amendments requires an explicit estimation process and calculation regarding auditor-engaged specialists. This specificity is overly prescriptive. We recommend removing the prescriptive requirement and allow for firms to apply the principles-based considerations already included in the Form AP Instructions.
Experience of Audit Personnel	Firm (Item 4.4)	<ul style="list-style-type: none"> How should personnel changes based on role be treated? For example, consider an engagement partner who leaves the firm prior to signing the audit report. Is that individual included in the first metric? Additionally, are the metrics based on role at the start of the period, end of the period, or an average within the period? Refer above to 'Preliminary implementation and application questions/considerations applicable to multiple metrics.' How are partial periods treated in quantifying experience?
	Engagement – engagement partner, EQR, core engagement team (Item 6.4)	<ul style="list-style-type: none"> We question whether it is appropriate to include a specific metric related to EQRs as it may imply they are part of the engagement team. See our implementation challenge and related recommendation in response to Question 13 in Appendix I. If an EQR metric is included, how should EQR assistants be treated in this metric? As metric (iii) is based on the definition of 'core engagement team' see our implementation challenges and related recommendations regarding the definition in response to Questions 9 and 12 in Appendix I. Refer to the incremental implementation questions/considerations identified above within the firm-level metrics.
	Firm (Item 4.5)	<ul style="list-style-type: none"> Should the industry metrics be reported at the supersector or sector level provided in Appendix A to Proposed Form FM Instructions? The industries included in the example do not appear to directly align to either the supersector or sector classifications.⁵⁵

⁵⁵ See example of the firm-level calculation on page 67 of the Release.

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
Industry Experience of Audit Personnel		<ul style="list-style-type: none"> • Further clarification is need for treatment of individuals meeting the criteria in multiple industries. Specifically, we do not understand the example regarding the calculation of managers in the 'Investment banking and brokerage services' category, as page 67 of the Release indicates there are 10 managers with greater than 3 years of industry experience, however, page 68 indicates there are 12 managers with such experience (2 managers specializing in Banking, Finance and credit services and Investment banking and brokerage services; 5 managers specializing in Banking and Investment banking and brokerage services; and 5 managers specializing in only Investment banking and brokerage services). It is unclear if the two managers that also specialized in Banking, Finance and credit services would be excluded?⁵⁶ • What period is the 10% reporting threshold based on? For example, is it based on revenue earned during the reporting period (i.e. 10/1-9/30), the firm's fiscal year, or another period? • Additional guidance is needed to clarify the meaning of 'in a year' within the definition of 'year of industry experience' and whether this is calculated within a specific 12-month period such as the reporting period from 10/1-9/30. • Judgment would be required when evaluating industry experience outside of audit engagements. Providing factors to consider when determining relevance of outside service and what documentation is required to support the conclusion would be helpful. • How are partial periods treated in quantifying experience? • Further guidance is needed on the extent of documentation required to support self-reporting of industry experience. • How should firms treat audited entities that operate in multiple industries? Many global corporations may have segments or components that operate in industries different from the parent entity's designated ICB. How is industry experience calculated when an individual works on a segment or component of an audited entity that is different from the parent entity's industry designation? • Do these metrics appropriately account for the importance of recent experience? For example, would 5 years of industry experience acquired 20 years ago be as valuable as 2 years of industry experience acquired over the past 2 years? How has the Board considered the natural evolution of businesses and the impact of factors such as technology across all industries in designing this metric? We recommend the Board revisit the various thresholds that introduce complexity into these metrics and may diminish the value of the nature and timing of industry experience when calculating these metrics.
	Engagement – engagement partner, ECR, engagement team (Item 6.5)	<ul style="list-style-type: none"> • We question whether it is appropriate to include a specific metric related to EQRs as it may imply they are part of the engagement team. See our implementation challenge and related recommendation in response to Question 13 in Appendix I. If an EQR metric is included, how should EQR assistants be treated in this metric? • As this metric is not limited to the core engagement team, it introduces complexities in data gathering information from other auditors, and from differences in industry classifications in international jurisdictions. While we do not support this metric, if retained, it should be limited to the core engagement team.

⁵⁶ *Id*

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
		<ul style="list-style-type: none"> • Metric (iii) relies on the definition of 'partners' and 'managers.' See our implementation questions and related recommendations regarding these definitions in the response to Questions 9 and 12 in Appendix I. • Metric (iii) relies on the definition of 'engagement team,' which requires data compilation from other auditors. We recommend the Board consider this data collection and validation within their economic analysis in determining whether the use of other auditor information is necessary to meet the Board's objective. • Why individuals with de minimis involvement in the audit would be included in metric (iii) is not clear. See our implementation challenges and related recommendations regarding participation in the audit in response to Questions 9, 11, and 12 in Appendix I. • Refer to the incremental implementation questions/considerations identified above within the firm-level metrics.
Retention and Tenure	Firm (Item 4.6)	<ul style="list-style-type: none"> • We recommend defining what is meant by "holding the same position" in the firm average annual retention rate to mitigate unintended noncompliance. • The example firm-level calculation includes managers who 'transferred out of the audit practice.' However, the calculation is based on the definition of 'partners' and 'managers', which is tied to 'participation in the audit' rather than being a member of a firm's audit practice, which would include specialists and other team members in a multidisciplinary firm. Is the intention to exclude individuals no longer participating in audits (e.g., individuals in an audit support role) or is the expectation that the calculations would include individuals coded to the audit function of a multidisciplinary firm irrespective of their involvement in audit engagements? • The annual average retention rate is described in the Release as including individuals employed "continuously during [of] the 12-month period." However, the Release does not indicate how personnel activities such as leaves of absence should be treated and whether it is determined based on legal employment status. • These metrics rely on the definition of 'partners' and 'managers.' See our implementation questions and related recommendations regarding these definitions in the response to Questions 9 and 12 in Appendix I.
	Engagement – core engagement team (Item 6.6)	<ul style="list-style-type: none"> • How to calculate the number of years on the engagement in the average tenure on the issuer engagement metric is not clear and as result raises the following questions: <ul style="list-style-type: none"> ○ Is there a limit or threshold for how far back years' experience is calculated? ○ Are years on the engagement prior to qualifying as a 'core engagement team member' included in the metric? ○ How are breaks in service treated (e.g. a partner who is a core engagement team partner served in previous roles on the engagement as far back as many years ago as a senior associate and manager)? • Individuals such as consulting resources from the national office may meet the definition of a partner/manager on the core engagement team based on hours charged – are such individuals intended to be included in these metrics?

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
		<ul style="list-style-type: none"> • Would it be appropriate to exclude individuals from the metrics if they had a de minimis level of involvement in the engagement (e.g. a partner in a national office who was consulted on a matter and incurred more than 10 hours, but less than 1% of total audit hours)? • These metrics rely on the definition of 'partners' and 'managers.' See our implementation questions and related recommendations regarding these definitions in the response to Questions 9 and 12 in Appendix I. • As the metrics are based on the definition of 'core engagement team' see our implementation challenges and related recommendations regarding the definition in response to Questions 9 and 12 in Appendix I. • Similar to firm-level annual average retention rate, the Release does not discuss how personnel activities such as leaves of absence within the period should be treated and whether it is determined based on legal employment status. • The average annual retention rate and average annual headcount change metrics both refer to information from the "most recent previous audit period" and the 'current year audit period.' As engagement-level metrics are proposed to be included in Form AP, subsequent to the completion of the audit period, it is not clear what specific periods are inputs into the metrics. For example, does 'current year audit period' refer to the period in the most recently filed financial statements, or does it refer to the in-process period in the subsequent period, when the Form AP is being completed?
Audit Hours and Risk Areas	Engagement – total audit hours (Item 6.7)	<ul style="list-style-type: none"> • Management override risk is a presumed risk in all audits, but notably was excluded in the examples of this metric. Further guidance is needed as to how that risk should be considered since the response is pervasive to the audit. • Many firms have monitoring functions in place that perform reviews of specific areas of an in-process engagement file. Whether these reviewers should be included in the 'engagement team' definition in the Proposed Amendments is not clear. • How should the effort related to procedures that indirectly determine the audit effort around critical accounting estimates, critical accounting policies, and significant risks be treated? For example, how do you bifurcate audit hours incurred to test entity level controls, general IT controls, management inquiries, board of director inquiries, legal inquiries, etc., which are more pervasive in their nature? • Engaged specialists may assist an engagement team in performing audit procedures in certain risk areas. Therefore, it's not clear why engaged specialists would be excluded from the total hours calculated in Form AP. We recommend including engaged specialists within the definition of total audit hours. • Given risk assessment is an iterative process, critical accounting estimates, critical accounting policies, and significant risks may be designated as such as part of planning an audit and subsequently reassessed (e.g. downgraded) during the audit and prior to issuance of an audit report and the filing of financial statements. How would hours related to procedures to support the revised risk assessment be considered in the metric? Are hours expected to be included in the calculation of the metric based on designation of significant risks, critical accounting policies, and critical accounting estimates at a point in time or upon completion of audit procedures? • This metric relies on the definition of 'partners' and 'managers.' See our implementation questions and related recommendations regarding these definitions in the response to Questions 9 and 12 in Appendix I.

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
		<ul style="list-style-type: none"> This metric relies on the definition of 'engagement team,' which requires data compilation from other auditors. We recommend the Board consider this data collection and validation within their economic analysis and consider whether the use of other auditor information is necessary to meet the Board's objective. It is not clear why individuals with de minimis involvement in the audit would be included in this metric. See our implementation challenges and related recommendations regarding participation in the audit in response to Question 11 in Appendix I.
Allocation of Audit Hours	Firm + (Item 4.7)	<ul style="list-style-type: none"> Further guidance is needed to interpret the "12-month period ended 9/30 for all issuer engagement for which the firm issued an audit report." Should the period being reported on be based on audit reports dated from 10/1 - 9/30 or based on engagements with a fiscal year-end from 10/1 - 9/30. If the latter, significant challenges with the proposed 11/30 reporting period for Form FM should be anticipated. Clarification is needed on how these metrics would be applied to an IPO engagement where the audit covers up to three years where often the work doesn't follow the traditional audit cycle or timeline. How would the hours prior to and following the issuer's year-end be determined, specifically for the historical periods presented? (Note: this question also applies at for the engagement-level metrics) These metrics would require data aggregation first at the engagement level to support the firm-level calculation. As the reporting period for the firm-level metrics (i.e. 12-month period ended September 30) is different than the engagement periods for which total audit hours are calculated for Form AP, this creates challenges with data collection and validation for different periods. This challenge is exacerbated by the requirement to use total audit hours, which relies on information from other auditors. We recommend the Board consider this data collection and validation within their economic analysis and consider whether the use of other auditor information is necessary to meet the Board's objective.
	Engagement – total audit hours (Item 6.8)	<ul style="list-style-type: none"> Is the expectation that 'total audit hours' agrees to the 'total audit hours' used to calculate percentage participation for reporting on Form AP? Would the time spent compiling and reporting the metrics included in the Proposed Amendments and other Form AP compilation be included or is this intended to be time only through the issuance date of the auditors' report or documentation completion date? Refer to the incremental implementation questions/considerations identified above within the firm-level metrics.
Quality Performance Ratings and Compensation	Firm (Item 4.8)	<ul style="list-style-type: none"> Although we are not supportive of the firm-level metrics related to quality performance ratings and compensation given the lack of comparability resulting in potential misuse of the metrics and the risk of disclosing confidential information, if the Board proceeds with requiring these metrics, we recommend a definition or framework to define partner compensation be provided. For example, would partner compensation include variable compensation? For firms where partners are compensated on a unit value, how should unit value changes be factored into compensation? Where quality ratings are impacted by internal monitoring results, is the intention of these metrics to capture all partners or just those selected for internal monitoring?

Metric	Level/Inputs	Preliminary Implementation Questions/Observations
Audit Firms' Internal Monitoring	Firm (Item 4.9)	<ul style="list-style-type: none"> • Guidance is needed to better understand the definition of 'period covered by the firm's most recently completed internal monitoring cycle.' Is that intended to mean the fiscal year of engagements covered, the audit report dates covered, or the monitoring periods itself? • Clarification is needed for the periods that would be reported in the percent of issuer audits selected for internal monitoring metric. The firm may select historical periods of an engagement on a targeted basis, which if included in the numerator of the metric would dilute the metric when compared to total number of issuer engagements for the period covered by the internal monitoring cycle. Should historical periods of targeted engagements be excluded from this metric?
	Engagement (Item 6.9)	<ul style="list-style-type: none"> • It is not clear how prior year results are indicative of current year audit quality. See our implementation challenges in response to Questions 54-57 in Appendix I. • It is not clear how to interpret 'area of noncompliance' in all instances. For example, there may be noncompliance that impacts multiple areas, such as risk assessment or documentation requirements. This further supports the high risk of misuse and misinterpretation of this engagement-level metric. • In some elements the metric calls for 'deficiencies' and in others refers to 'engagement deficiencies.' We recommend both the engagement-level description and the reporting on Form AP refer specifically to 'engagement deficiencies' as a defined term aligned with QC 1000 so to not cause confusion as to how to define and report on 'deficiencies' identified and related descriptions.
Restatement History	Firm (Item 4.10)	N/A