
GRANT THORNTON LLP

Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

June 7, 2024

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

Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 041, *Firm and Engagement Metrics*

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) Rulemaking Docket Matter No. 041, *Firm and Engagement Metrics*.

We support meaningful transparency to relevant stakeholders that will enhance their understanding of audit firms and. However, we believe that additional study is needed in order to determine what information is truly meaningful to the broader population of "stakeholders," as described in the Proposal. We agree with the Board's observation that audit quality cannot be measured, in whole, by calculated metrics. Yet, despite this observation, the Proposal includes 11 metrics with ambiguous intentions and usability. We submit for the Board's consideration our comments and recommendations, including an Appendix to our letter addressing specific metrics discussed in the Proposal.

Following are the major observations that we detail further in our letter:

- We generally support reporting firm-level metrics; we believe certain changes to the proposed requirements would provide necessary clarity to stakeholders.
- We believe no amount of context around engagement-level metrics would provide an appropriate basis for reporting such metrics publicly. The audit committee is the only party sufficiently informed regarding the nuances of the company, the audit, and the independent auditor to glean meaningful information from any engagement-level metrics.
- We believe the potential unintended consequences, such as diversion of time away from audit quality as well as inappropriate or unsubstantiated inferences regarding the metrics, outweigh the intended benefit of the proposed metrics.

- We foresee a variety of operational challenges that call into question whether the perceived benefits outweigh the cost of implementing and maintaining systems that would support reporting the proposed metrics.

Proposed firm-level metrics

While we have concerns regarding several of the proposed firm-level metrics, as described in the accompanying Appendix, we generally support the concept of publicly reporting certain firm-level metrics. We agree with the Board that the firm-level reporting could provide stakeholders with information relevant to a firm's audit practice and its related system of quality control. Overall, the proposed reporting of firm-level metrics is consistent with voluntary disclosures that some firms may currently report in firm transparency and audit quality reports.

However, we believe it is important that the final rulemaking related to firm-level metrics only include accounting firms' issuer and broker-dealer audit practices to align with the Board's statutory oversight. We believe including nonissuer information could be misleading to stakeholders who may mistake such disclosures as being within the PCAOB's purview. Including the nonissuer portion of a firm's audit practice appears contradictory to the Board's pursuit of clarity through proposed Rule 2400, *Proposals Regarding False or Misleading Statements Concerning PCAOB Registration and Oversight and Constructive Requests to Withdraw from Registration*. If the Board intends to make clear what lies within and outside its purview through proposed Rule 2400, we believe this rulemaking related to firm and engagement metrics should reflect similar principles.

Proposed engagement-level metrics

Role of the audit committee

We believe audit committees are best positioned to determine what engagement-level metrics are meaningful in their oversight and to request such metrics from the auditor. Audit committees oversee the independent auditor and also have a unique role in overseeing the company's financial reporting, activities, and performance. Consequently, audit committees recognize the unique aspects of the companies they oversee and have the necessary and appropriate context to understand engagement-level metrics for that company's audit, as well as the ability to ask the auditor follow-up or probing questions as needed. We believe the audit committee in its oversight function is the appropriate recipient for the discussion and contextualization of the engagement-level metrics.

We have significant concerns regarding the proposed public reporting of engagement-level metrics. We believe that certain engagement-level metrics would be misunderstood by investors who do not have the necessary context to comprehend the metrics, which could lead to inappropriate conclusions. We are also concerned that public reporting also puts a company's sensitive or nonpublic information at risk.

Further, if publicly provided context is necessary to understand the metrics, this could indicate that the data is not comparative among firms, thus rendering it impractical to stakeholders. We believe issues such as the variety among firms' methodologies and resources, along with the lack of scalability, could exacerbate the risk that

engagement-level metrics would not prove to be as useful as the Board intends and may result in incorrect interpretations among stakeholders.

Similarly, even companies within the same industry can have meaningfully different circumstances, which are directly impacted by each company's policies and resources. These circumstances, in turn, impact various inputs to the proposed metrics, such as engagement team composition and hours. We are concerned that the variety of companies within each industry would result in information being inappropriately accumulated or aggregated by stakeholders since the underlying population is not sufficiently homogenous. We are also uncertain about whether and to what extent the general population of investors would utilize the engagement-level metrics if publicly reported.

We encourage the Board to consider streamlining and revising its approach to engagement-level metrics. We recommend, as an alternative, creating a principles-based requirement in AS 1301, *Communications with Audit Committees*, which would require the auditor to agree with the audit committee which engagement-level metrics would be meaningful, and would require the auditor to communicate such metrics annually to the audit committee. We believe a requirement in AS 1301 sets the right tone and context for engagement-level metrics given the nature of the communications already required in that standard. The auditor could then tailor a personalized, meaningful discussion for each individual audit committee that addresses that audit committee's needs in considering relevant matters for each specific audit.

Unintended consequences

We are concerned that there could be unintended consequences that would outweigh the perceived benefits of engagement-level metrics being reported publicly. For several metrics, we are concerned that inappropriate inferences could be made, depending on the information reported by firms (see specifics in the accompanying Appendix). We believe that information accumulated and compared across firms may result in the subjective determination of "correct" or "better" metrics that may falsely correlate with better (or worse) audit quality, even though, as stated by the Board, audit quality cannot be measured, in whole, by calculated metrics. For example, more hours incurred in a particular area of focus or on an engagement overall do not always translate to higher audit quality in that area or on that engagement. Additionally, as noted above, the distinctiveness of companies within each industry could result in inappropriate aggregation, which would negatively impact comparability, posing a risk of false and misleading information that is not in the public interest.

The practical challenges of publicly reporting the proposed engagement-level metrics will distract the focus away from the risks and performance of the audit, which could be detrimental to audit quality.

Operational challenges

If the Board proceeds with the proposed metrics reporting, we believe the Board will need to institute some level of materiality or a de minimus threshold to avoid unnecessary penalties for materially correct reporting. If the Board seeks to truly

inform audit committees, investors, and other stakeholders, we believe it is important to recognize that de minimus differences likely will not impact transparency for stakeholders. Further, it may be necessary for firms and engagement teams to include rounding or estimation for certain metrics (such as those that require categorization by type) due to the nature of audit procedures or discussions, which may indirectly impact multiple areas.

While we understand the need for certain terms to be defined in order for firms to calculate the proposed metrics, we do not believe it is appropriate to define terms specifically for use in the metric calculations that differ from definitions used elsewhere in PCAOB rules or standards. Using different definitions could cause confusion and misinterpretation for audit firms as they comply with the proposed requirements and for stakeholders as they analyze the metrics. Additionally, the new definition of “engagement team” in AS 2101 may impact how firms calculate certain metrics since many of the metrics involve members of engagement teams. We believe additional study is necessary to evaluate the defined terms in the Proposal against terms already defined in other PCAOB rules and standards. In particular, we believe the new definition of “engagement team” could have a variety of implications for calculating the relevant proposed engagement-level metrics.

International considerations

Registered firms from outside the US are subject to various laws and regulations regarding disclosure of personal data and other confidential information. We understand from non-US firms that some of the proposed new required disclosures go beyond what non-US regulators require and may lead to violations of local laws resulting from disclosure of information that non-US auditors are required to keep confidential under: (1) professional secrecy obligations and/or (2) laws and regulations governing disclosure of personal information. In addition, concern has been expressed about the communication and public disclosure of a wide array of sensitive economic and commercial information relating non-US audit firms to a foreign regulator. We anticipate that many non-US firms would seek to decline to provide information based upon conflicts with non-US laws and/or ask the PCAOB for confidential treatment. Although the Proposal expresses skepticism that disclosure of various items would conflict with applicable non-US law, we believe a better approach would be to allow firms to assert conflicts with non-US laws, which still require those firms to obtain legal opinions to support withholding the information.

Effective date

We do not believe the proposed effective date provides adequate time for firms to undertake the changes that are necessary to adapt to the requirements as proposed, particularly in light of the population of standards and rules that are either recently approved or on the horizon. We have expressed concerns in previous letters regarding the resource constraints that the Board’s standard-setting agenda is creating. Such concerns are compounded with this Proposal along with the firm reporting proposing release. We suggest that the effective date be no earlier than three years after SEC approval.



We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Assurance Quality and Risk, at (404) 475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix: Feedback on specific firm-level proposed metrics

We generally support publicly reporting firm-level metrics, so long as the information in those metrics is limited to an accounting firm's issuer audit practice and is subject to the comments and recommendations supplied below. This Appendix discusses our feedback on specific proposed firm-level metrics for the Board's consideration.

We do not support public disclosure of engagement-level metrics. Instead, we support communications with the audit committee regarding relevant engagement-level metrics. As such, we have not addressed the engagement-level components of the proposed metrics below, with the exception of *Audit hours and risk areas* because the Proposal identifies this as an engagement-level only metric.

Proposed metrics

Partner and manager involvement

We are generally supportive of disclosing, at the firm level, the hours worked by "senior professionals" (as defined in the Proposal) relative to more junior staff across the firm's issuer engagements.

Workload

We are uncertain what benefits stakeholders will gain from disclosing the average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff. The proposed metric includes time attributable to administrative duties and all other matters, which could include training, business development, recruiting, and time off. We encourage the Board to perform outreach on this firm-level metric to determine if it would be meaningful for stakeholders. We are concerned that stakeholders could draw inappropriate or unsubstantiated inferences because of the additional hours generally worked during the busier times of year; additional hours are not necessarily directly linked to enhanced audit quality, particularly when the basis for the calculation is all hours incurred.

Audit resources – use of auditor's specialists and shared service centers

We generally support the proposed firm-level metric to report the percentage of issuer engagements that use specialists and shared service centers. However, we are concerned that including auditor-engaged specialists would create practical

application issues due to the subjective nature of estimating hours incurred by external specialists when actual hours are unavailable.

In response to question 26(a) in the Proposal, we do not support the alternative metric to report the percentage of usage of auditor's specialists and shared service centers across all of the firm's engagements. This alternative calculation will vary significantly based on each firm's resources, methodologies, and policies, such as policies related to certain industries. Such variation could create misleading metrics. As described in the body of our letter, we believe including all firm engagements in calculations is inappropriate because the PCAOB has statutory authority over only a subset of firms' engagements.

Experience of audit personnel

We generally support disclosing the average number of years senior professionals across the firm have worked at a public accounting firm.

Industry experience of audit personnel

We have concerns regarding the proposed firm-level metric to report the average years of experience of senior professionals in key industries audited by the firm. While engagement partner industry experience may be relevant, managers naturally tend to have more varied industry experience based on their level, which could dilute the metric for senior professionals as proposed.

Additionally, we believe that industry experience might not be comparable among firms, as certain firms require more industry specialization while others take an industry portfolio approach. While we appreciate the Board's basis for dictating the Industry Classification Benchmark (ICB), we do not believe this is generally how firms categorize the industries in which they operate, and we are unsure whether stakeholders would be familiar with these classifications as well. We also believe it may be confusing since issuers indicate their industry on their SEC filings using Standard Industrial Classification (SIC) and/or North American Industrial Classification System (NAICS).

Instead, we encourage the Board to consider requiring public disclosure of industry expertise at the firm level based on the percentage of a firm's issuer clients according to the industry marked on those issuers' SEC filings. We believe reporting this at the firm level, as opposed to audit personnel, would provide more useful information about the firms to stakeholders and offer better cohesion with already publicly available information about issuers.

Retention and tenure

We generally support disclosing the continuity of senior professionals at the firm level.

Audit hours and risk areas (engagement-level only)

As discussed above, we believe that any engagement-level metrics should be presented solely to the audit committee if requested by the audit committee in its evaluation of audit quality and performance.

However, we foresee several issues that may contribute to inaccurate data being reported for this particular metric. Risk assessment is an iterative process throughout

the audit, which means that identifying significant risks and critical accounting policies, practices, and accounting estimates may change during an audit, resulting in changes in how auditors track their time for reporting under this metric. Additionally, an individual's hours charged to auditing a particular account balance may include work performed that is unrelated to an identified significant risk, for example, testing other relevant assertions and disclosures associated with that account balance. Further, the nature of the audit procedures performed could include overlap with other areas of the audit depending on discussions held and procedures performed. Tracking time at the granular level needed to accurately capture hours for significant risks and critical accounting policies, practices, and accounting estimates would infuse additional time and costs into engagements that are not directly associated with audit quality. In fact, we believe an argument can be made that such diversion of time could be detrimental to audit quality.

However, if the Board ultimately proceeds with engagement-level metrics (either publicly as proposed or through AS 1301 as we recommend in the body of our letter), we believe the Board should not move forward with this particular metric given the dynamic nature of the audit and the iterative process of risk assessment.

Allocation of audit hours

We generally support disclosing the percentage of hours incurred prior to and following an issuer's year-end across the firm's issuer engagements.

Quality performance ratings and compensation (firm-level only)

We have significant concerns regarding the proposed firm-level disclosure of quality performance ratings and compensation. Performance management is a multifaceted and complex process, and firms have different strategies and systems that are used to document and evaluate performance management. Due to the lack of consistency among firms, public disclosure of internal quality performance ratings and compensation would not be meaningful to stakeholders. What's more, the metric excludes consideration of a variety of other factors that may be included in compensation decisions.

Additionally, we believe that this is another area in which conflating a firm's issuer audit practice with the remainder of the practice could be confusing and misleading to stakeholders. As noted in the body of our letter, proposed Rule 2400 is intended to better clarify the engagements that are within the PCAOB's statutory oversight. We believe mixing issuer and nonissuer data in the proposed metrics directly contradicts the objective of proposed Rule 2400.

Audit firms' internal monitoring

We generally support disclosing the percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level. However, we believe it would be more meaningful to investors to include this metric as a percentage of compliant engagements (as opposed to "deficient" engagements) at the firm level to align with existing disclosures in firm transparency reports. Additionally, we believe the inconsistencies in the definitions of "deficiency" under International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or*

Related Services Engagements, and the PCAOB's QC 1000 may create confusion among stakeholders, since different conclusions could be reached by firms depending on the standards applied for internal monitoring purposes.

Restatement history (firm-level only)

We have reservations about the proposed requirement to report firm-level restatements of financial statements and management reports on internal control over financial reporting that were audited by the firm over the past five years. It is unclear in the Proposal whether the requirement includes revision restatements, which we believe should be excluded due to the immaterial implications to the audit, because revision restatements would result in a material misstatement if the errors were corrected or left uncorrected in the current year's financial statements. We encourage the Board to specifically exclude revision restatements in the final ruling for this firm-level metric in order to more appropriately reflect the quality of the audit performed.