ILLINOIS CPA SOCIETY

June 7, 2024

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

Re: PCAOB Rulemaking Docket No. 041

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee" or "we") appreciates the opportunity to respond to PCAOB Rulemaking Docket Matter No. 041, *Firm and Engagement Metrics,* dated April 9, 2024. The organization and operating procedures of the Committee are reflected in Appendix A attached to this letter. These comments and recommendations represent the position of the Audit & Assurance Services Committee of the Illinois CPA Society rather than any members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

The Committee represents a diverse group of auditors with respect to firm demographic and role, including members of academia and the consulting profession. As such, we feel that we bring a unique perspective to respond to this proposal and appreciate your consideration of our thoughts herein.

GENERAL COMMENTS:

We support the Center for Audit Quality's (CAQ's) request for an extension of the comment period to "120 days (from the original proposal date) to provide commenters the opportunity to carefully weigh and consider the proposed requirements," stated in the CAQ's May 22, 2024 letter to the PCAOB. Proposed Docket Matter No. 041, *Firm and Engagement Metrics,* contains over 200 pages of background, discussion, and analysis. Further, it details metric formulas that require specific inputs which firms may or may not be equipped to collect sufficient, accurate, or reliable data for with current information systems. At the same time, the PCAOB released proposed Docket Matter No. 055, *Firm Reporting,* with nearly 100 pages of analysis and 69 questions for consideration.

To fully consider the proposals, metric formulas, data collection needs, and other ramifications of the reporting requirements, respondents need sufficient time to assess resources and consult to provide comprehensive responses.

Our initial concerns include engagement level metrics in particular. Although certain firm-level metrics are currently publicly reported voluntarily in firm's audit quality or transparency reports, we strongly oppose the public reporting of engagement-level metrics. Each engagement is unique and has different risk areas, team compositions, and timelines. These variations will lead to an incomparability among engagement-level metrics, which will not be meaningful for investors. This would even cause confusion or misinterpretation of certain engagement-level metrics, especially if investors believe there is a causal link from a specific metric to audit quality. The proposal itself mentions a concern that "viewing any one metric, or even many of them, without consideration and discussion of other factors affecting audit quality could be misleading." We believe that this would become a compliance exercise that may not improve audit quality or meaningful transparency to stakeholders.

Instead, we believe that audit committee discussions are the appropriate avenue for engagement-level metrics as needed. This way, conversations can be tailored to the individual engagement, appropriate context can be provided, and the audit committees have the appropriate background and knowledge of the Company to have a meaningful two-way conversation regarding any metrics that may impact the audit. We believe that audit committee communications regarding any relevant firm-level metrics would align with the oversight role of the audit committee to help determine the quality of the audit.

Additionally, we share certain concerns expressed by Board Member Christina Ho in her April 9, 2024 remarks to the PCAOB's open board meeting. Specifically, we share her concern that the "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" or that given the nature of certain metrics "without proper context, the comparability among issuers would be limited." As we noted in our response to Rulemaking Docket No. 54, "information without good context is not useful" and can have the unintended consequence of creating misunderstanding rather than building trust or aiding in relevant decision making on behalf of investors.

Also, we share her concerns regarding the existence of mechanisms and information systems to provide for the collection and reporting of the data necessary to calculate certain metrics. Even in cases where existing systems might be leveraged to provide necessary metric data inputs, accuracy considerations regarding existing data may not have been fully thought through for these data sets in the past. Further, ensuring the accuracy of this reporting on an ongoing basis will require a significant amount of effort. Considering the scope of required metrics, the Committee questions whether the enhanced reporting requirements would further detract from audit quality as they would require additional firm resources to comply and would ultimately be the responsibility of those in charge of audit quality oversight. These additional resources would likely be drawn from the audit profession, which is already facing talent and retention issues, and the audit quality function, who has many other critical and ongoing responsibilities at the firm and engagement levels (e.g., oversight, training, monitoring results, inspection support).

Further costs to comply with reporting requirements would disproportionately impact smaller firms with less sophisticated information systems and may create barriers to growing an existing public audit practice, which may lead to the unintended consequence of reduced competition in the marketplace.

PCAOB QUESTIONS AND COMMITTEE RESPONSES:

Question 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?

As noted above, we generally do not support engagement level metrics. We believe that comparability will be difficult to achieve on engagement-level metrics.

The engagement level partner and manager involvement metric represents one example of this issue. Because the nature and level of appropriate supervision varies based on a number of factors such as engagement risks and staffing characteristics, this metric (defined as: total partner + manager audit engagement hours / total audit engagement hours) may vary significantly across successive years or in comparison to the audit of a seemingly similar entity. The experience level of staff may dictate additional supervision time in one year but not in successive years. Further, audited entity considerations and selected audited approaches would impact this measure.

For example, in any given year an issuer may have significant events or transactions that impact the total audit effort required (such as business combinations, adoption of new standards, changes in internal control environment) and by extension the need for additional manager or partner involvement in relation to these increased complexities. This may result in significant variability in the total manager and partner hours incurred for a particular issuer year-over-year. Similarly, audit approach or variations in the ability to leverage technology could impact overall audit hours and artificially inflate or deflate this metric. For example, one audit firm may substantively test revenue through a test of details of a sample of the population, and another audit firm may use data analytics such as a sales match of the entire population (incurring significantly less hours).

Capturing such engagement-specific nuances does not seem feasible, and thus we question if such data can ever truly be comparable and how useful it will be to users.

Question 5: Is it appropriate for firms to report metrics by rounding to the nearest whole number except in cases where additional decimal places (no more than two) are needed to properly interpret the result or enable comparison to prior periods? If not, what would an appropriate level of precision be?

We support the use of rounding, particularly on the proposed metrics that relate to hours. We also strongly believe the Board should establish a de minimis threshold which would not impact the desired transparency.

Question 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?

Yes, we believe that if reported metrics are required (for which we have expressed concerns as indicated in our response to Question 4), then optional narratives disclosures should be permitted to provide context to reported metrics to users, particularly given concerns over comparability.

Question 39: Would it be beneficial to disclose the annual retention rate and the annual headcount change of staff with three to five years of experience (often called seniors)? Should disclosure be provided for all staff levels?

We do not believe it would be beneficial to disclose the annual retention rate or head count changes of seniors (staff with three to five years of experience) or all staff levels. Though not entry-level positions, staff within this experience range are at a career turning point, meaning departures occur for a variety of reasons ranging from performance to a desire to depart public accounting entirely. Consequently, we believe this rate would be susceptible to more volatility than other retention rates or headcounts, making it harder to provide appropriate context for fluctuations. Further, focusing on headcounts (or headcount changes) of staff with three to five years of experience may not necessarily reflect their respective abilities on issuer engagements. For example, it is common for international staff without a US based CPA license to have more years of experience but operate in a 'senior' capacity. This variation in skill level and definition of the 'senior' role presents further comparability issues. Finally, we question whether this would incentivize firms to retain ineffective staff or negatively impact hiring decisions, which would ultimately negatively impact audit quality.

Question 42: Are firms currently tracking the time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates? If not, what should the Board be aware of related to potential costs or challenges related to obtaining this information?

We understand that firms are not currently tracking the time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates. Often, the time is charged to overall supervision and review, due to the overlap among audit areas and complex nature of certain areas. For example, consideration of pervasive controls, time in general spent on a financial statement audit area (such as performing control process walkthroughs), and methods of addressing management override of controls among other areas may all be tracked in categories separate from specific significant risk areas as defined in the metric inputs. However, each could have a meaningful impact on time spent auditing significant risk. Given likely diversity in how partners and managers understand the requirement and decide to allocate time, the metric could fluctuate considerably across engagements, adversely impacting comparability. Also, considering the incremental time and attention necessary to report at this granular level and properly consider comparability such precise hour-tracking requirements could take away from actually performing quality audit work.

Question 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.

We have significant concerns regarding the proposed firm-level metric of public disclosure of quality performance ratings and compensation. We believe the metric oversimplifies performance management, which is a complex and multi-faceted process that is not consistent among firms. Additionally, public disclosure of partner compensation raises confidentiality concerns.

Question 73: Would it be appropriate for us to require inclusion of some or all firm- and engagement- level metrics in the audit report in addition to PCAOB forms? On what basis should particular metrics be included or excluded?

No, we do not believe it would be appropriate to require inclusion of metrics in the audit report. The purpose of an audit report is to provide a vehicle for public accounting firms to either express an opinion on an entity's financial statements taken as whole or state that it cannot express an opinion. As laid out in Auditing Standard (AS) 3101, objectives include issuing a written report that expresses an opinion (or asserts one cannot be expressed) and communicating critical audit matters. The reporting elements, critical audit matters, and other components of an audit report serve to describe the basis for the audit opinion, responsibilities of involved parties, and other audit entity-specific information.

The inclusion of metrics - many of which relate to audit firm considerations – does not serve any purpose in the audit report. Further, it may distract from the report itself. If the same information is available to stakeholders elsewhere, we question the need to incorporate the metrics into the audit report in any way.

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The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Amber Sarb, CPA
Chair, Audit and Assurance Services Committee

Jon Roberts, CPA
Vice Chair, Audit and Assurance Services Committee

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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2024 – 2025

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education, and public practice. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
National:	
Scott Cosentine, CPA	Ashland Partners & Company LLP
Timothy Delany, CPA	RSM US LLP
Erik De Vries, CPA	CohnReznick LLP
Kara Fahrenbach, CPA	Plante Moran, PLLC
Emily Hoaglund, CPA	KPMG LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Kelly Kaes, CPA	Grant Thornton LLP
Alek Michali, CPA	Baker Tilly US, LLP
Michael Potoczak, CPA	Marcum LLP
Jon Roberts, CPA	BDO USA, P.C.
Amber Sarb, CPA	RSM US LLP
Regional:	
Elda Arriola, CPA	Roth & Co., LLP
Andy Kamphuis, CPA	Vrakas CPAs + Advisors
Genevra D. Knight, CPA	Porte Brown LLC
Matthew Osiol, CPA	Topel Forman LLC
Michael Ploskonka, CPA	Selden Fox, Ltd.
Local:	
Kelly, Buchheit, CPA	ORBA
Lorena C. Engelman, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	PKF Mueller, LLP
Industry/Consulting:	
Sean Kruskol, CPA	Cornerstone Research
Educators:	
Meghann Cefaratti, PhD	Northern Illinois University
Staff Representative:	
Heather Lindquist, CPA	Illinois CPA Society