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Via email: comments@pcaobus.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

Dear Office of the Secretary:

We are pleased to provide comments to the Board and Staff on the April 9, 2024 Release No. 2024-002, *Firm and Engagement Metrics* (the "Proposal"). In a separate letter, we also respond to Release No. 2024-003, *Firm Reporting* (Docket Matter No. 055). While we have responded separately to these two proposals, some of our responses share some common themes.

Baker Tilly US, LLP ("Baker Tilly," "we," or "our") currently audits under 100 issuers, very few of which are accelerated or large accelerated filers ("AFs" and "LAFs", respectively). Although we are a top-10 ranked firm, our organization is in the PCAOB's category of a non-affiliated firm ("NAF"), which is substantially different from a Global Network Firm ("GNF").

General Comments on the Proposal

We recognize this topic has been debated over the course of many years, and generally welcome the Board's efforts to provide decision-useful information to investors and audit committees. However, there are several areas in which the Proposal falls short of that goal as well as several practical challenges to implementation. These concerns generally fall into the following categories:

- *Relevance or usefulness to stakeholder decision making* – certain of the new requirements do not appear to meet a threshold criterion of being relevant or useful to investors or audit committees. We believe investors' fundamental decision-making is based on issuer financial performance, not information about the firms that audit those issuers or engagement-level metrics about audit hours or the audit team. It is the audit committee's statutory responsibility to represent the needs of investors and make informed decisions about the appointment and retention of auditors. Thus, it is far from clear that increased public disclosure by audit firms will lead to different investor decision-making. We do believe there is room for more dialogue between auditors and audit committees, but the topics to be addressed will vary from issuer to issuer, and private dialogue is a more productive path than a host of new public firm- and engagement-level metrics that may not be utilized by audit committees or

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investors.[1] We believe the proposal underestimates the robust dialogue that already occurs between audit committees and audit firms. Audit committees can and often do request whatever information they believe is helpful in exercising their oversight responsibilities. To that end, we believe it would be more appropriate and more useful for the audit committee and the firm or firms they are retaining or considering appointing to agree on the metrics most relevant to informed decision-making, and encourage active two-way dialogue regarding those metrics. Additionally, we believe some of the requirements are duplicative of other new PCAOB rules and standards or information the PCAOB already gathers in its inspection process.

- *Cost in proportion to potential benefit* – the benefits of some new requirements are unclear or hypothetical, and the Proposal's economic analysis does not attempt to quantify the related costs. As noted above, we do not believe several of the requirements will ultimately provide benefits to stakeholders at all, and other purported benefits are not sufficient to justify the related costs. Throughout the Proposal, there is a presumption that more disclosure is generally beneficial, but this presumption is unsubstantiated. The concept of costs is largely disregarded, raising questions as to how the SEC could approve a final rule without a robust cost-benefit analysis. Direct costs would include implementation of new processes and procedures to collect and produce the required information by audit firms, likely resulting in higher audit fees for investors. Indirect costs would include opportunity costs as firms redirect scarce resources to satisfying these new reporting requirements, which could be better used by allocating those resources to audit execution or quality control remediation and/or monitoring efforts. On balance, we do not believe the benefits will outweigh the costs for several of the new requirements.

- *Information outside the Board's oversight authority* – it is difficult for firms to comment on legal matters, but several new requirements seem to require public production of information that is confidential or otherwise outside of or unnecessary for the Board's oversight function. Additional complexities related to confidentiality may exist for non-U.S. registered firms and the applicability of PCAOB Rule 2207.

- *Need for estimates and materiality considerations* – the Proposal contains a mix of principles- and rules-based reporting requirements, sometimes requiring estimates and the application of judgment. We urge the Board to embrace the spirit of principles-based requirements and not use disagreements about firms' good faith judgments as a basis for increasing enforcement cases. While some parts of the Proposal acknowledge the need for estimates, there is no de minimis threshold or other materiality considerations in the Proposal or existing requirements of Form AP or other PCAOB reporting. Historically, this has led to unnecessary time and costs related to inspection findings and amending filings for very minor errors.

- *Timing challenges* – if the Proposal is issued in its current form, we believe additional time will be necessary for firms to comply, particularly given new quality control standards now pending SEC approval. We also believe it will be necessary and appropriate to include a pilot reporting period in a test environment prior to the final effective date to ensure a smooth transition.

- *Disproportionate cost to smaller firms and issuers* – parts of the Proposal seek to attain a percentage of total market capitalization of issuer audits subject to the Board's oversight, but for the portion of that market capitalization audited by smaller firms, the implementation costs are likely to be much more significant than for larger firms as a percentage of the market capitalization those firms audit. That means those issuers (and, in turn, their investors), may bear more cost than even some of the largest

[1] These points were reiterated by Board Member Ho in her April 9, 2024 statement:

> "I am concerned that the staff's premise that audit committees are not efficiently and effectively monitoring and selecting auditors without these metrics might be erroneous."
> "The premise that the audit committees somehow need standardized metrics to aid in its comparison and selection of auditors is simply theoretical."

issuers. The investors and audit committees of these smaller issuers are also less likely to place significant reliance on the information being requested. To that end, we strongly urge the Board to reconsider applying this portion of the Proposal only to firms that audit more than a certain number of issuers rather than every firm that audits a single AF or LAF.

We explain these and other comments to certain questions posed in the Proposal in more detail in the accompanying appendix.

Conclusion

Finally, we reiterate concerns raised in prior comment letters regarding the pace and scope of the Board's standard setting agenda, the cumulative impact of all standard setting projects and changes, the impact to the audit profession and individual auditors, and the related costs to firms, individual auditors, issuers, and investors. We strongly encourage the Board to consider pausing or significantly slowing the pace of standard setting to allow the audit profession to focus on the implementation of other new standards and enable thoughtful post-implementation review of recently issued standards. For example, while the comment period for this Proposal was open, the Board voted to approve new standards on firms' systems of quality control and general responsibilities of the auditor.[2] The new quality control standard in particular will be a significant implementation undertaking, and imposing additional reporting requirements during the implementation period only increases the burden on an already strained audit profession. Particularly when the benefits are so unclear and the costs are unquantified, we caution the Board that proceeding at this pace may yield unintended consequences.

We also echo the concerns raised by the Center for Audit Quality ("CAQ") in its May 22, 2024 comment letter[3] regarding the short comment periods for this and other proposals and the inability of firms to fully evaluate the hundreds of pages of proposal content and provide thoughtful comments to the Board and staff. The same day of the CAQ's letter, PCAOB Chair Williams spoke virtually at the PCAOB's *Forum on Auditing in the Small Business Environment and on Auditing Broker-Dealers* in Chicago, Illinois. In her remarks, Chair Williams made the following points:

> "Last year the Board took more formal actions on standard setting and rulemaking than any year since 2013. That work continues in 2024. So far this year, we've issued three proposals to modernize, clarify, streamline, and strengthen our rules and standards. We've also adopted new standards and amendments through two projects that have been informed by robust input from a wide variety of stakeholders, including small firms."
>
> "Once we've proposed a new or amended standard or rule, we look for more perspective through the public comment process. We encourage small firms to give us their unique perspectives.
>
> This input is incredibly valuable for us, and it shows up in our rules and standards."[4]

These points simultaneously acknowledge the rapid pace of standard setting while emphasizing the value of stakeholder input, including from smaller firms. A 60-day comment period amid multiple other open proposals

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[2] PCAOB Release Nos. 2024-004 and 2024-005, May 13, 2024.
[3] This letter has been posted to PCAOB Rulemaking Dockets 041 and 055.
[4] Chair Williams May 22, 2024 remarks.

and newly issued final rules, at times during peak audit busy season, is simply not sustainable or practical for smaller firms to provide the meaningful input the Board claims it values.

We thank you for the opportunity to present our views on the Proposal and appreciate your consideration. We would be pleased to discuss these comments further with you.

Sincerely,

Baker Tilly US, LLP

BAKER TILLY US, LLP

APPENDIX – RESPONSES TO CERTAIN QUESTIONS POSED IN THE PROPOSAL

Summary of the Proposed Metrics

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?

First, we are highly skeptical that investors and audit committees will actually use the proposed metrics to inform their decision-making. Audit committees, acting on behalf of investors, already have direct access to the audit firms they appoint and can request any information they believe aids their decision-making. Investors' votes on auditor ratification are nonbinding. Consequently, what little use there may be by average investors is very much at risk of misinterpretation or misuse, as those investors do not necessarily have a full appreciation of the information used by the auditor committee in making auditor appointment or retention decisions.

2. Are any of the metrics we are proposing overly focused on the operations of larger firms? If so, which metrics and how could we make them more neutral?

Generally, the Proposal appears focused on audits of issuers with larger market capitalization, so the metrics are not as relevant to audits of smaller issuers or audits conducted by smaller firms.

Comparability

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?

We believe this idea may present practical challenges as firm sizes and issuer sizes change over time. We believe the data will be capable of disaggregation and comparison without additional fields.

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?

Our view is the information is inherently incomparable. No two issuer audits or firms are the same, so comparison of certain metrics will not be particularly meaningful to investors or audit committees.

Rounding and Use of Estimates

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?

Yes. Our view is if any user is making inferences regarding the significance of decimal point variations in the proposed metrics, that would be a signal that they have misunderstood the intent of this Proposal and the

misimpression the Board has sought to avoid, "that any set of metrics can comprehensively measure audit quality."[5]

6. Is it appropriate to allow firms to use reasonable estimates when actual amounts are unavailable? Should there be any other restrictions on the use of estimates? If so, what are they?

Yes. As more fully described in other responses herein, we recommend the Board allow – *and even encourage* – reasonable estimates for all metrics, as well as add a materiality threshold so firms can prioritize the speed of reporting this information over absolute precision in the quantification of metrics. In recent years, the Board has issued several enforcement orders regarding firm reporting on Forms 2, 3, and AP, as well as Part I.B and Part II inspection findings for minor errors in Form AP reporting. Given the significant expansion of information to be included in Form AP, we believe allowing estimates will accomplish the Board's objectives without undermining the usefulness of the information provided or delaying the timing of its release. We also recommend the Board adopt a de minimis threshold whereby firms would not need to amend prior PCAOB reporting for minor errors.

Additionally, particularly for engagement-level metrics regarding audit hours by audit area, we do not believe absolute precision will be possible, given the nature of some audit procedures may cross several audit areas.

Optional Narrative Disclosure

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. If this Proposal moves forward and metrics are publicly disclosed, we believe narrative disclosure will be necessary to provide context to readers. However, we do not support public disclosure of engagement-level metrics, regardless of the option to include narrative disclosure.

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?

If this Proposal moves forward and metrics are publicly disclosed, we believe 500 characters will be too low. Certain firm and engagement metrics may be nuanced, and reporting only a numerical metric may be misleading or misinterpreted by users. We anticipate several metrics on any given engagement will benefit from narrative explanation, and we think firms should be able to provide as much context as needed for a proper understanding of the reported metrics.

Key Terms and Concepts (Questions 9 through 17)

Due to differences in firm structures and titles and the myriad of new definitions and thresholds in the Proposal, we have concerns about comparability. Consequently, we believe most metrics are best addressed between the auditor and audit committees.

Additionally, we are concerned about the role of other auditors in metrics. The quantification of "total hours" at the firm level would mean reporting from other auditors in group audit engagements that are not part of the firm.

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[5] Proposal, page 6.

Consequently, it may be misleading to refer to those as "firm" metrics when they are, in fact, firm metrics plus hours of other auditors.

Partner and Manager Involvement

18. Are the proposed descriptions and calculations of the firm-level and engagement-level metrics for partner and manager involvement clear and appropriate? If not, why not?

Our primary concern with partner and manager involvement relates to the hours of other firms involved in the audit and the time and cost to gather and report this information. Form AP currently only requires a calculation of total audit hours. Obtaining time detail by individual for other auditors and applying the definitions of the Proposal to each individual will likely present challenges and require more time and cost, plus introduce potential inconsistency. We recommend the Board focus more on firm-level metrics only, and limit those calculations to the principal auditor, not including other auditors involved in the audit. We also recommend pilot testing to help quantify the true costs of this and other metrics, along with outreach to audit committees and other stakeholders to determine whether they realize meaningful benefits from this reporting.

19. Would it be helpful to separate the calculations for partner involvement and manager involvement? Why or why not?

We do not believe separation will be helpful. While we appreciate the importance of these roles, if the Board proceeds with this metric, we believe aggregate reporting will provide a sufficient sense of the involvement of engagement leaders on audits.

20. Because of the importance of the engagement partner's role, would it be helpful to separate the calculation for engagement partner involvement from the calculation of the other partners and managers on the audit? Why or why not? Is there another way in which a metric could focus on the role of the engagement partner and, if so, what is the metric and how should it be calculated?

Please see our response to question 19.

21. Instead of partner and manager involvement, should firms disclose partner and manager hours compared to staff hours on the audit (i.e., a staffing leverage ratio)? If so, why?

Please see our response to question 19.

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?

For firm-level metrics, we are concerned about comparability among firms, and fear these metrics will create noise, instead of any decision-useful information. We also question the usefulness of this calculation. For example, many firms do not require detailed recording of non-chargeable time, so the disclosure of total working hours will be a rough estimate at best for some firms. We do not believe the benefits of this metric will

justify the burden of asking firm professionals to spend more time and energy tracking all of their non-chargeable time.

We are not supportive of this proposed metric at an engagement level other than consideration of a discussion with the audit committee.

23. Should we require separate metrics for partner (excluding the engagement partner), manager, and staff workload? If so, why? Should the metric be limited to workload information for partners (other than the engagement partner) and managers? Why or why not?

Please see our response to question 22.

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?

Our primary concern with this metric is the fact that more or less usage of auditor's specialists or shared service centers is not necessarily indicative of higher or lower audit quality, so it is unclear how or why this information is useful or necessary for stakeholder decision making. Consequently, we believe this issue is best addressed via dialogue (not detailed reporting) with audit committees.

25. In situations in which the hours are unavailable, we are proposing that firms estimate an hourly equivalent for auditor-engaged specialists. Is there another way this information could be captured? If so, what is it? Are there other practical challenges with respect to auditor- engaged specialists that we should consider?

There are many practical challenges to including auditor-engaged specialists in firm or engagement-level metrics. We do not believe firms will have a sufficient basis to estimate hourly rates by level to estimate hours. Additionally, fees may not be known within the proposed reporting timeframe due to billing cycles and how close to the report issuance date specialists may continue to be involved and incurring time. We recommend excluding engaged specialists from reporting.

26. With respect to the firm-level metrics for the use of (i) auditor's specialists and (ii) shared service centers:

a. The metrics calculate the percentage of issuer engagements on which (i) auditor's specialists and (ii) shared service centers were used. Alternatively, should these metrics calculate the average percentage of usage of (i) auditor's specialists and (ii) shared service centers across all of the firm's engagements?

   Please see our response to question 24. Regarding the alternative posed in this question, we do not believe it is appropriate or within the Board's authority to require reporting about a firm's non-issuer practice.

b. The metrics for use of auditor's specialists and shared service centers at the firm-level calculate the percentage of issuer engagements in which specialists or shared services centers, respectively, were used, no matter how minor their involvement may have been. Should the metric capture only

engagements in which an auditor's specialist or shared services center was used for a minimum number of engagement hours, such as 2% or 5%? If yes, what should the threshold be?

This question illustrates the concern we expressed in our response to question 24. More or less specialist involvement is not necessarily a signal of anything positive or negative, and we do not believe introducing yet another threshold will make the information more useful to stakeholders.

c. We have proposed that the firm-level use of (i) auditor's specialists and (ii) shared service centers metrics be provided in aggregate across all of the firm's issuer engagements. Alternatively, would it be beneficial to provide either of these metrics by industry for those industries included in a firm's industry experience metrics? Why or why not?

No, we do not believe further disaggregation by industry would be necessary or helpful.

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?
b. At the engagement-level should the firm report the types of work performed by the service center (e.g., non-complex tasks such as data input, data validation and data formatting, checking schedules for mathematical accuracy, updating standard forms and documents (such as engagement letters and representation letters), rolling forward standard work papers (such as lead sheets), performing reconciliations, and similar activities) or indicate the specific areas of the audit in which work of shared service centers was used (e.g., revenue, cash)? If so, what should be reported?

Please see our response to question 24.

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?

No, we do not feel this metric meets the threshold criterion of being useful to users, and the costs of preparation and reporting will outweigh the benefits. This metric seems to presume firms would assign underqualified personnel to engagements, which is not the case, and the PCAOB already obtains professional resumes of engagement leaders through the inspection process. Professionals assigned to issuer audits may have a variety of career experiences, some of which might be outside of auditing or even public accounting, but are nevertheless helpful to their expertise. This metric may understate those individuals' total relevant experience.

This information is also not readily known to firms. Firms may have total tenure at the firm, but no internal tracking of personnel's total experience prior to joining the firm. Requiring firms to gather this information will introduce more cost and time.

If this metric must remain, we recommend removing the engagement-level metric and amending the firm-level metric to include total professional experience for individuals that have been assigned to issuer audits.

Industry Experience of Audit Personnel

29. Is three years of experience for managers and five years of experience for partners an appropriate threshold for industry experience? If not, what number of years should we use? Should the same number of years be used to determine industry experience for all levels of seniority (e.g., audit partner and audit manager)?

We believe this metric as proposed is very problematic, and believe this concept is better addressed via dialogue with audit committees, not cumbersome public reporting that requires detailed calculations for all personnel and engagements. For example, the metric seems mostly about bench depth in particular industries, but even a shallow bench can still perform a high-quality audit before partners are required to rotate off. These are nuanced considerations and audit committees are much better positioned to assess a firm's industry expertise, without the need for public reporting.

There are also several practical challenges we believe far outweigh the purported benefits:

- The metrics would require a lookback over professionals' entire careers to determine how much time they spent in a particular industry. Firms do not track this internally, and for experienced hires or merged-in personnel, firms may not have access to this information. Significant estimation would be required, and the precision of those estimates is not likely to be particularly high.
- For prospective tracking, firms' systems do not necessarily align to the 31 industry classifications the PCAOB chose in the Proposal. Experience in a particular engagement may also cross several sectors, so firms would be required to implement complicated systems to track and report this information.
- Issuers' industry sector classifications may evolve over time, further complicating the reporting.

30. We have proposed the following considerations to be taken into account when determining an individual's industry experience: (1) industry experience may be, but is not required to be, exclusive to experience on audit engagements but must be relevant, (2) industry experience is not required to be in consecutive years, and (3) auditors may have industry experience in more than one unrelated industry. Are these the right considerations? Should industry experience be determined by a minimum number (or percentage) of hours on engagements within a particular industry? Does it matter whether the years of experience have been recent or if the experience was not obtained as an auditor? If so, please provide an explanation.

We agree that industry experience should not be limited to audits or even public accounting. We also agree that experience should not be required to be in consecutive years. We believe reasonable judgments and estimates should be encouraged in these determinations.

As stated in our response to question 29, we do not believe this determination should be based on historical hours given the practical challenges to retrieving or reporting that information.

31. If an auditor does not work exclusively in one industry, what are the considerations to determine whether the auditor has qualifying experience in multiple industries? Should it be based on hours (time) worked in a specific industry with a minimum percentage, for example 250 hours or 25% of the auditor's time focused on a particular industry as we have proposed?

This question illustrates part of the concern we expressed in our response to question 29. Few auditors – particularly those at smaller firms – work exclusively in one of the 31 sectors in the Proposals. We believe this determination should be qualitative in nature, not a quantitative threshold. Consequently, we reiterate our belief that this concept is best addressed via dialogue with audit committees, not public reporting that is more likely to be misinterpreted.

32. We have proposed the FTSE Russell Index as a reference for industry classification based on supersector and certain disaggregation to the sector or subsector level. Is this index and disaggregation appropriate? Is there a more suitable reference index? If so, what is it and what are the comparative benefits of other indices?

As stated in our response to question 29, we believe the practical challenges are more relevant than the index used. If one compares the Proposal to an open-ended discussion with an audit committee, it becomes clear that dialogue is a more productive way for an audit committee to assess the depth of the engagement team's expertise for the issuer under audit than trying to interpret quantitative reporting based on thresholds the audit committee may not understand or may not have chosen for their particular situation.

33. At the firm level we have proposed that firms disclose industry experience for those industries that represent at least 10% of the firm's revenue from audit services, with the option to include additional industries. Is 10% an appropriate percentage to use? If not, should the percentage be higher or lower?

If the Board proceeds with requiring a firm-level metric, we believe it should be limited to considering issuer audit revenue only, and the personnel that work on those audits. As proposed, this metric appears to include consideration of non-issuer revenue and personnel.

34. Are there thresholds for disclosure that may be meaningful in addition to or instead of a percentage of the firm's revenue? For example, should we require firms to disclose industry experience for their top five or top ten industries by revenue from audit services? Are there other thresholds we should consider and, if so, what are they?

Please see our response to question 33. The first clarification should be limiting this consideration to audit revenue within the PCAOB's jurisdiction. We also believe the relevance of this metric will be significantly lower for smaller firms and we question its usefulness to stakeholders.

35. As proposed, firms would provide industry experience information at the engagement level based on only the issuer's primary industry. Would it be beneficial for this metric to be disclosed for additional industries in which the issuer operates? If so, are there practical considerations in determining the level of industry specialization disaggregation that should be requested or allowed? What threshold should be used to determine which other of an issuer's industries should be reported?

As noted in our response to question 29, there will be practical challenges to mapping issuers to primary or even secondary industries, particularly for larger multinational entities with diverse operations. We believe this question illustrates the complexity and burden of attempting to provide the type of reporting the Board has proposed and reiterate our belief that this information is much better addressed via dialogue with audit committees.

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?

The firm-level metric appears to include all of the firm's managers and partners, not just those who serve on issuer audits. We believe this broad scope renders this metric meaningless for firms with a relatively small issuer audit practice relative to the total firm. We also recommend more outreach regarding the usefulness of this information for stakeholders.

The engagement-level metric may be nuanced, and we are concerned the information will be misinterpreted. There are several legitimate reasons a firm may rotate personnel on or off an engagement, including mandatory partner rotation, family or medical leave, scheduling conflicts, or other reasons. We do not support public reporting of this metric and believe this is better addressed via dialogue with audit committees.

37. Are the description and the calculation of the proposed average number of the firm's partners and managers at the firm level clear and appropriate? If not, why not?

Please see our response to question 36.

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?

No, for the simple reason that partners are subject to mandatory rotation requirements. This metric will be misleading for partners in their initial year of rotation and Form AP disclosures already provide users an engagement partner's tenure in that role.

Audit Hours and Risk Areas

41. Is the calculation of the audit hours and risk areas metric clear and appropriate, including the components of the calculation? Why, or why not?

We do not believe this metric is capable of accurate calculation. Please see our response to question 42.

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?

No, our firm does not track time at these levels, particularly for partners, nor do we see a benefit to doing so. We believe attempting to track time at these levels will be a massive distraction to engagement team members.[6] There are also several practical challenges to this approach.

- Risk assessments can change throughout an audit, so the determination of significant risks is not a static decision an engagement team can make at the outset of an engagement and track all time accordingly. The same is true for critical accounting policies and estimates. Audits are iterative processes, and we are very concerned engagement teams will be unduly concerned with time tracking vs. executing the audit.
- Particularly for partners, we are extremely concerned about the risk of distraction. We believe engagement partners' sole focus should be on their core responsibilities of supervising and reviewing the audit in accordance with AS 1201. Those activities are difficult if not impossible to track at the level of detail proposed.
- Time related to personnel outside the engagement team such as employed specialists or national office consultation personnel is typically not tracked at the levels proposed.
- There will be significant challenges determining what time relates to the specific areas required for this metric vs. time spent in other areas of the audit. For example, consider the revenue cycle on an issuer audit:

    - Revenue recognition is a common critical accounting policy and practice.
    - Revenue contains a presumptive fraud risk, but that risk is not necessarily applicable to the entire account, and PCAOB auditing standards acknowledge risks are not necessarily uniform across an entire account.[7] Accordingly, significant disaggregation is often necessary and appropriate for a thoughtful risk assessment.
    - The revenue cycle may also include critical accounting estimates such as variable consideration.

  While it may sound simple to aggregate time spent on these areas and report it, practical questions quickly arose in our preliminary assessment of this metric. For example:

    - How would the engagement team consider time on general audit areas such as planning, risk assessment, or work on pervasive or entity-level controls?
    - How would the engagement team bifurcate their time on the specific areas required for this metric from other work on revenue not subject to these risks or estimates?
    - If a critical accounting estimate applies to all revenue transactions, but the testing of that estimate is based on one key control or one part of a substantive test, would the time incurred be limited to those specific tests, or all revenue testing?
    - For an integrated audit, how would a manager-level information technology ("IT") professional bifurcate their time on the areas required for this metric from other IT work on the revenue cycle overall, or general IT controls that apply to the revenue cycle?

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[6] This point was also made by Board Member Ho in her April 9, 2024 statement: "…this metric may present administrative challenges and distract the engagement teams' focus from auditing to accurately allocating work hours across overlapping audit areas."

[7] *See, e.g.,* AS 2110.63: "The components of a potential significant account or disclosure might be subject to significantly differing risks."

We are concerned this Proposal significantly oversimplifies the risk assessment process and the ability to track time at the levels proposed. This is particularly true for engagement partners, whose supervisory time in these areas would only be a rough approximation.

- When engagement budgets are often utilized, they are typically created at the financial statement line item, cycle level, or general audit area (e.g., ITGCs). They are not disaggregated at the levels proposed in this metric.

For all of these reasons, we believe this metric will not be capable of accurate calculation, and even estimating time will be difficult and time consuming.

43. Should this metric only report the percentage of hours for the partners and managers on the core engagement team instead of all partners and managers on the engagement team? Why or why not?

If this metric remains, we believe it would be appropriate to expand beyond the core engagement team, as some of these areas may include internal specialists or others relevant to the metric.

44. Under the proposal, the definition of engagement team includes employed specialists, but not engaged specialists. Should this metric be revised to also include engaged specialist hours? Why or why not?

No, it should not. It is not practical to report the hours engaged specialists work on audit engagements as that information is often not available to firms, and some specialists work on fixed fee arrangements.

Allocation of Audit Hours

45. Is the calculation of the allocation of audit hours to prior to and following the issuer's year end clear and appropriate? Why, or why not?

We generally support this metric at the firm level, but caution that reported metrics may be misleading, hence the importance of narrative disclosure to provide necessary context to users. Circumstances beyond the auditor's control may influence the allocation of overall audit hours, and users should be cautioned against making presumptions that a higher proportion of hours after the issuers' year ends is a signal of lower quality.

At the engagement level, we believe this information is best addressed via dialogue with the audit committee. For example, even if offered the opportunity to provide narrative context, auditors may not be inclined to provide a full explanation as to why hours allocation may have skewed to after year end for a particular issuer, as doing so might disclose confidential information about the issuer's preparedness for the audit or other facts, which might result in disputes.

46. Would a different, more granular, metric be more appropriate, for example allocation of audit hours devoted to each phase of the audit—planning, quarterly reviews, interim field work, final field work up until report release date, and post-report release date until audit documentation completion date? Why, or why not?

No, as noted on page 83 of the Proposal, segregating hours into phases presents additional challenges. At least initially, we believe the proposed levels of allocation are appropriate. For example, it is often difficult to separate quarterly review procedures from audit procedures that might be performed during the review fieldwork for a significant transaction that occurred during the quarter. Additionally, as noted in our response to

question 42, planning is an iterative process and risk assessments are refined over time. It does not seem helpful or necessary to attempt to delineate the reporting of hours into phases. A date certain (the issuer's fiscal year end) is a much more objective way to report the allocation of audit hours.

47. Are there other considerations related to the reporting of this metric that would increase its usefulness and comparability (e.g., including a subset of the firm-level metric by industry, by client year end, etc.)?

No, we believe reporting hours before and after the issuer's year end will be a sufficient metric as it will be an objective, consistent approach. Based on our understanding of the Proposal, users that wish to perform analyses by industry or year end will be able to do so as they see fit.

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.

No, they are not, and we have several concerns with this metric.

- First, we believe the Proposal oversimplifies firms' rating and compensation processes. Many firms have a blended approach to performance ratings, and there are a host of factors that are considered, including quality. However, quality ratings are not necessarily a standalone component that can be reported separately.
- This metric also appears to encompass all partners of the firm. For firms where the issuer audit practice is a small portion of the overall firm operations, providing this metric for all partners does not appear to be useful to users.
- At best, this metric will provide "potential correlation level between the firm's partner quality performance ratings and annual compensation adjustments…"[8]

For these reasons, we do not believe this metric will provide decision-useful information to users and we are concerned results will not be comparable among firms due to the unique structures for the partner performance management and compensation process.

50. If firms do not have a specific quality performance rating for partners and use an overall performance rating instead, should they be required to indicate the use of an overall performance rating? Is there another way for these firms to report the correlation between partner performance and compensation? If so, what is it?

We believe a general description of the firm's process as part of the annual Form 2 changes in Release No. 2024-003 is a more appropriate way to report this information.

51. We do not propose to define partner compensation in Section III.B.1. Should the nature (e.g., cash vs. non-cash) or the types (e.g., distributions, bonus, partner draws, etc.) of compensation that should be included

[8] Proposal, page 90.

or excluded in the calculation be described? Are there any types of compensation that should be excluded? If so, what are they? And why?

If this metric is retained in its current form, we believe the Board should apply a principles-based approach and allow firms to provide narrative explanation of what is included in or excluded from total compensation.

52. The proposed metric does not differentiate between equity partners and non-equity partners in calculating and reporting this metric. Should equity partners and non-equity partners be differentiated and reported separately? Alternatively, should the metric only include equity partners? Why or why not?

This may be a firm-by-firm determination. The definition of "partners" is rather broad, so we believe that for this metric the term "partner" should be limited to those that have signed partnership agreements with the firm, regardless of whether they have equity. Some partner equivalents (referred to as managing directors at some firms) might not be subject to the same compensation determination process as partners.

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?

Yes, please see our response to question 50.

Audit Firm's Internal Monitoring

54. At the firm level, we are proposing to require firms to provide disclosure of (i) the period covered by the firm's most recently completed internal monitoring cycle, (ii) the percentage of issuer engagements selected for internal monitoring, and (iii) the percentage of internally monitored engagements that had an engagement deficiency. Should we also consider providing the actual numbers of engagement deficiencies identified in the firm's most recent monitoring calendar? Why or why not?

No, we believe this would be misleading if disclosed as proposed. QC 1000 defines an "engagement deficiency" as:

> An instance of noncompliance with applicable professional and legal requirements by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm.

This definition mixes the issues the PCAOB refers to in Parts I.A, Part I.B, and Part I.C of inspection reports. Disclosing this as one combined number will be extremely misleading to users. We recommend this definition be changed to align with the PCAOB's threshold for Part I.A inspection deficiencies.

55. At the engagement level, firms would be required to disclose whether a previous engagement for the issuer was selected for internal monitoring in the most recently completed internal monitoring cycle and, if so, whether the firm identified any engagement deficiencies related to (1) financial statement line items, (2) disclosures, or (3) other noncompliance with applicable professional and legal requirements. Are these categories appropriate? If not, why not? Should there be additional categories? If so, what should they be and what types of deficiencies should they cover? Provide an explanation of your answer.

We are strongly opposed to public disclosure of engagement-level monitoring information. As proposed, this metric directly contradicts the PCAOB's operating protocols since inception to not disclose issuer names in inspection reports. Additional input from audit committees and issuers should be sought to properly consider the confidentiality concerns.

We are extremely concerned this disclosure would be misinterpreted or misused as a signal about the quality of an issuer's financial reporting, when it is not. Disclosing confidential internal inspection information will also create yet another significant disincentive for firms to continue auditing issuers. Finally, the PCAOB also already obtains this information as part of the inspection process.

56. For each engagement deficiency identified, we are proposing that the areas of noncompliance and the type of testing deficiency or the standard or rule with which the noncompliance was identified also be disclosed. Is this an appropriate level of detail to understand identified deficiencies? Why or why not?

Please see our response to question 55.

Restatement History

59. Is five years an appropriate number of years to require firms to report? If not, what would be the appropriate number of years?

Five years is unnecessarily long given this information is readily available via the SEC's EDGAR system. We recommend this period be limited to whether any of the years presented in the latest audit report have been restated, which would generally be two or three years.

60. Should we require reporting of revision restatements? Why or why not?

No. By definition, revision restatements are not material to the year to which they relate, and thus are not necessary or useful to decision making. Additionally, please see our response to question 61 regarding practical limitations to producing this information.

61. Are firms currently tracking revision restatements, reissuance restatements, or both for issuer engagements for which the firm issued an audit report? If so, which category of restatements does the firm currently track and for how long does the firm track this information?

For reissuance restatements, yes, but it is still a manual process for many smaller firms.

For revision restatements, no, we do not track these separately given the materiality comment noted in our response to question 60. Moreover, revision restatements are not tracked by external providers either, as there is no accompanying Item 4.02 8-K filing or amended quarterly or annual report. If the Board proceeds with this requirement, we recommend it be required prospectively only, so as to not require burdensome analysis of historical filings of all issuer reporting by all firms.

62. Do you agree with the proposal to count multi-year audit restatements based on each year impacted by the restatement? Why or why not?

Not necessarily. Some restatements may be triggered by a distinct issue in one year, which may or may not be material to other years presented, but those other years are still corrected in the restatement process. This may be a case-by-case determination that requires consideration of both qualitative and quantitative factors.

63. Should we also require restatements to be reported at the engagement level on Form AP? Why or why not?

No. As noted in question 59, this information is already available in the SEC's EDGAR system, and we also note that Form AP already is required for a dual dated audit report. We are concerned the Proposal is creating unnecessary and potentially confusing redundancy between PCAOB data and SEC data. We believe the items to be reported in PCAOB systems should be limited to firm and engagement information that are not already available in current public filings.

Thresholds for Required Reporting

64. For firm-level metrics, is the threshold for reporting appropriate? If not, what would be an appropriate threshold? For example, should we require a threshold for firms that audit companies of a certain size, market capitalization, or another method?

If this Proposal moves forward, we do not think the threshold for firm-level reporting should be auditing one AF or LAF. Issuers frequently move above or below the AF or LAF thresholds. We believe firm-level reporting should apply to annually inspected firms, and the new requirements should apply in the year following the year in which such a firm issues over 100 issuer audit reports. We believe this change would improve the scalability of the Proposal and still capture a large majority of market capitalization.

65. Should smaller firms have different reporting requirements than larger firms? Why or why not? If so, how should the reporting of metrics differ?

Yes. As noted in our response to question 64, firms that issue fewer than 100 issuer audit reports should not be required to report firm-level metrics.

66. For engagement-level metrics, is the threshold for reporting appropriate? If not, what would be an appropriate threshold? For example, should we require engagement-level metrics for audits of investment companies (other than BDCs that are accelerated filers or large accelerated filers) or non-accelerated filers? And if so, why?

We believe the threshold should be clarified and raised. As noted in our response to question 64, issuers can move above or below LAF or AF status, and the measurement date of those determinations is June 30 for a calendar year filer. An auditor of an issuer that crosses into AF status should not be required to report engagement-level metrics in the initial year of that issuer being in AF or LAF status, as that change might not have been known when the auditor accepted or planned the engagement. A one-year implementation period will allow those auditors time to implement engagement-level changes to capture and report the new information. However, as noted elsewhere in this response, we generally do not support public disclosure of engagement-level metrics.

Reporting of Firm-Level Metrics

67. Is September 30 an appropriate reporting date for firm-level metrics with a filing date of November 30? Is there an alternative reporting date that would be more appropriate and if so, what date? Is there an alternative filing date that would be more appropriate and if so, what date?

While we appreciate that the reporting dates are aligned with those of QC 1000, we are concerned about the amount of work firms will be required to do on this new form along with the QC 1000 requirements and the relationship with information reported on Form 2 on a different time period. We believe the Board should undertake a comprehensive review of all reporting requirements, systems, reporting, and dates, and potentially allow firms to choose the dates most appropriate for their auditing practices and make the information more accessible.

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?

Please see our response to question 67.

70. Are there certain firm organizational or legal structures that might make reporting certain metrics challenging (e.g., alternative practice structures)? If so, please describe the structure and which metrics would pose a challenge and why.

Alternative practice structures may necessitate more guidance for the determination of firm metrics.

Reporting of Engagement-Level Metrics

72. Should we require communication of firm-level and/or engagement-level metrics to the audit committee? If so, which ones and why?

As noted in several of our responses throughout this letter, we are supportive of more *dialogue* with audit committees, provided it is tailored to their specific needs and questions, not prescriptive or generic. We do not believe a separate audit committee communication requirement is necessary, because the nature, timing, and extent of this dialogue will vary by issuer and engagement for valid reasons.

Inclusion of Metrics in the Audit Report

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?

We are very concerned that the Board or staff are considering this option and hope that soliciting input is primarily to confirm that this is not a practical option.

Regarding firm-level metrics, we believe including this information in the audit report will be distracting and overwhelming to readers of audit reports. Additionally, timing confusion may arise given firm-level metrics will not have the same as-of date as the audit report.

Regarding engagement-level metrics, this information is simply not available at the time the audit report is issued, nor is it worthwhile to attempt to estimate it for the purpose of inclusion in the audit report.

- Attempting to include engagement-level metrics in the audit report will serve as a massive distraction to audit teams that are – and should be – focused on completing audit procedures and serving their gatekeeping roles.
- Engagement-level hours take time to be quantified, analyzed, reviewed, and reported. We do not believe it is feasible to have this information ready to be filed with an audit report.
- Retention and tenure metrics are affected by staffing decisions, which may continue to evolve up to the end of the audit.

Finally, if the Board pursues this path, we believe it will delay the issuance of audit reports to users.

74. Are there engagement-level metrics for which inclusion in the audit report would not be practicable, given the time needed to gather the data and make the required calculations? If so, which?

We do not believe it is practical for any engagement-level metrics to be included in the audit report. Please see our response to question 73.

75. If we were to require inclusion of metrics in the audit report, is there a specific placement or format that we should require? If so, what should that be (for example, at the bottom of the audit report, below the firm signature, or as an attachment to the report)?

Please see our response to question 73.

76. Are there costs associated with inclusion of metrics in the audit report that we have not considered? If so, what are they?

Irrespective of costs, we do not believe it is practical for any engagement-level metrics to be included in the audit report. Please see our response to question 73.

Confidential Treatment and Conflicts with non-U.S. Law

77. Would it be appropriate to allow confidential treatment of any of the metrics required on Form FM or Form AP? If so, which metrics and on what basis?

Yes, given the proposal requires disclosure of information we believe is, and should remain, confidential, we believe confidential treatment should be allowed. Our primary concerns relate to engagement-level monitoring information. However, as noted in our response to question 55, the PCAOB already collects this information in its inspection process, so separate disclosure does not appear necessary.

Potential Additional Firm and Engagement Metrics

80. Are there benefits to requiring a training metric at either the firm level or the engagement level that we have not considered? If so, what metric would provide useful information and how would the challenges that we have considered be overcome?

a. Would it be useful and appropriate to disaggregate by level for all audit professionals (e.g., partner, manager, and staff), or limit to only certain positions, (e.g., partners)? If so, what levels should be disclosed?
b. Would it be useful and appropriate to include a requirement for training to be disclosed for specific fields of study (e.g., accounting and auditing or independence and ethics, or fraud)? If so, what are they? Is it challenging to accumulate that information? Why or why not?
c. Would it be useful and appropriate to require disclosure of training hours? Or should we measure continuing professional education completion compliance rates instead of or in addition to training hours?

The Proposal acknowledges concerns that training metrics may not be informative, as well as concerns regarding quantity of hours vs. the quality of the learning those hours may or may not represent. We agree with these concerns and believe this issue is best addressed via firms' implementation of QC 1000 and related standards, as well as the Rule 4009 remediation process.

83. Are there benefits to requiring a metric at the firm level specific to technical resources that we have not considered? If so, what metric would provide useful information and how would the challenges that we have considered be overcome?

Particularly for smaller firms, we believe measuring and reporting technical resources will be difficult and not particularly useful to stakeholders.

85. Are there benefits to requiring a metric at the firm-level specific to investment in infrastructure that we have not considered? If so, what metric would provide useful information and how would the challenges that we have considered be overcome?

We agree with the statements in the Proposal that this metric would be difficult to define and measure, and just like training, the quantity of infrastructure spending does not necessarily translate to quality in audits. Consequently, we do not believe this metric would be meaningful for public reporting.

Benefits

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

No. In our estimation, the benefits are theoretical or hypothetical, and throughout this letter we have expressed concerns regarding the purported benefits of several of the proposed metrics.

Costs

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

No. We believe the costs will be significant and have been either unquantified or underestimated in the Proposal. In many areas, we believe the costs will far outweigh the benefits.

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?

Yes. This Proposal represents a significant expansion of reporting requirements affecting firms of all sizes. It will require careful implementation efforts to augment or add new systems, reporting mechanisms, and quality control processes. It will also require significant behavioral change in how personnel record time and even how they plan and perform their audit engagements. As noted in the introduction, we are extremely concerned about the pace of change in the PCAOB's standards and rules, and urge the Board to exercise restraint during the QC 1000 implementation period if that standard is approved by the SEC.

We also recommend a pilot period to facilitate testing and dry runs, as well as the solicitation of more input from audit committees and investors to validate the usefulness of the information.

Finally, we recommend an effective date of at least three years after SEC approval with an additional year for smaller firms.

112. Is a phased effective date appropriate for firm-level and engagement-level reporting? Should we phase in requirements based on the number of issuer audit reports issued, as proposed, or on some other basis (and if so, what)?

Yes, subject to our comments in question 111 regarding the effective date.