Sent via e-mail: comments@pcaobus.org

The Coordinator,
Public Company Accounting Oversight Board
Office of the Secretary,
1666 K Street, NW, Washington, DC 20006.

Date: June 07, 2024

Re: Public comment – Public Company Accounting Oversight Board (PCAOB) - PCAOB Rulemaking Docket Matter No. 041 – Firm and Engagement Metrics

KNAV & CO. LLP (KNAV) is a Chartered Accountancy Firm registered with the Institute of Chartered Accountants of India and the PCAOB.

We appreciate the opportunity to provide our comments on the Public Company Accounting Oversight Board's (PCAOB) proposal concerning firm and engagement metrics. As a Chartered Accounting firm committed to maintaining and enhancing audit quality, we recognize the importance of transparent and comprehensive metrics that accurately reflect the performance and reliability of audit practices.

After a careful review of the proposal, we would like to offer our comments and suggestions on specific aspects of the proposed metrics. Our feedback is organized around a few key questions raised by the PCAOB and aims to contribute constructively to the ongoing discussion on improving audit quality and stakeholder transparency. Our comments/responses are attached to this letter under Appendix A.

In conclusion, we commend the PCAOB for its efforts to enhance audit quality through these proposed metrics. We are confident that our comments and suggestions will contribute to the development of robust and effective firm and engagement metrics. We look forward to continued engagement with the PCAOB on this important initiative.

Thank you for considering our comments.

Sincerely,
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KNAV & CO. (a Partnership Firm – with ICAI registration number 120458W) is converted with effect from May 12, 2020, into KNAV & CO. LLP (a Limited Liability Partnership with LLP identity no. LLPIN AAS-4252 and ICAI registration number 120458W/W100679).

Appendix A

Public comment - PCAOB Rulemaking Docket Matter No. 041 – Firm and Engagement Metrics

Herein below, we have included our comments and suggestions on specific aspects of the proposed metrics. After providing our comments on the optional narrative disclosure, we have commented/responded to specific metrics related to question numbers 24 to 27, 42 to 44, and 58 to 63 related to Audit Resources – Use of Auditor's Specialists and Shared Service Centers, Audit Hours and Risk Areas, and Restatement History respectively.

After responding to the specific metrics, we have included a brief summary of our comments/responses on the proposed metrics in tabular form at the end of this Appendix.

Optional Narrative Disclosure for Specific Metrics

We support the inclusion of narrative disclosures for a select number of critical metrics. We believe this can enhance the understanding of audit quality without overwhelming stakeholders with excessive information.

While these are valuable, the narratives should be concise and focused to ensure clarity and ease of review. We propose a 500-character limit per metric as this will strike a balance between providing sufficient detail and maintaining brevity. As the size of firms reporting these metrics will surely vary, there should be guidelines such as the narratives being factual, directly relevant to the metric, and free from promotional or marketing language. The underlying purpose as stated in the first paragraph being providing clear and concise explanations to enhance stakeholders' understanding of the reported metrics.

The following metrics should be eligible for narrative disclosures:

1. Restatement History (Firm-Level Only):

This is a complex event with underlying causes. Providing context through narrative disclosures can help stakeholders understand the reasons behind restatements and the measures the firm has taken to address any identified issues. E.g., of the narrative can be - an explanation of the circumstances leading to restatements, including any significant changes in regulations, internal processes, or auditor judgments. Preferably restatements to be reported only when the same audit firm is involved.

2. Audit Hours and Risk Areas (Engagement-Level Only):

We believe this metric will provide key information to users regarding how the senior members of the engagement team allocated their time to the riskier areas of the engagement. Clubbing all 3 areas under one metric - the areas of significant risks, critical accounting policies and practices, and critical accounting estimates, which in any case are required to be reported to the Audit Committee in accordance with AS 1301 is helpful. However, this is a tricky metric as firms may tend to double count hours that may relate to more than one category of risk and thus a narrative disclosure will be helpful. The distribution of audit hours among different risk areas is crucial for understanding the focus and thoroughness of the audit. The narrative should include a detailed breakdown of how audit hours were spent on high-risk areas, and any notable challenges encountered during the audit process.

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

The involvement of specialists and shared service centers can greatly impact the quality and depth of an audit. With the increased use of shared service centers and the benefit being derived therefrom, narrative disclosures can clarify the extent and nature of specialist involvement and the reasons for utilizing shared service centers. The narratives can include descriptions of the specific expertise brought in by specialists, the rationale for their involvement, and the benefits derived from using shared service centers.

Comments/responses to questions 24 to 27, 42 to 44, and 58 to 63

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 response:

Appropriate

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?

Our response:

We believe that the proposed method of estimating hours for auditor-engaged specialists poses challenges and risks. Accuracy, reliability, and comparability across firms in the absence of a standardized measure for estimating hours are some of the issues that do not support the calculation of such a metric.

We want to recommend alternative approaches such as utilization metrics and qualitative descriptions, supported by narrative disclosures to provide necessary context and clarity enhancing the reliability, comparability, and overall transparency of the reported metrics, ultimately benefiting all stakeholders involved.

Utilization metrics: Firms should consider reporting the number of engagements where specialists were utilized and the proportion of total audit engagements that involved specialists. Here the focus is on the frequency of specialist involvement and not the estimated hours.

Qualitative descriptions: Firms should consider providing qualitative descriptions of the impact and contributions of auditor-engaged specialists on the audit process. This can convey the importance and effectiveness of specialist involvement and one does not have to deal with potentially inaccurate hourly estimates. Even describing the level of specialists would provide insights.

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?

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?

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?

Our response:

Our responses to 26 (a, b, and c) portray the importance we prefer for clear, comprehensive, and comparable metrics to assess audit quality. We support the calculation of the percentage of issuer engagements using specialists and shared service centers, oppose unnecessary segregation based on minimum engagement hours, and endorse the provision of industry-specific metrics to enhance stakeholder understanding and transparency.

For 26 (a) - We support the calculation of the percentage of issuer engagements on which auditor's specialists and shared service centers were used, as opposed to calculating the average percentage of usage across all of the firm's engagements. This is a relevant metric as it provides how pervasive the reliance on specialists and shared service centers is within the firm. It is simple and provides clarity. This metric allows for easier comparison between firms and over time.

For 26(b) – Our rationale for opposing the segregation to 2% or 5% is to avoid segregation based on minimum engagement hours and ensure that the metric remains straightforward and inclusive of all relevant contributions, providing a more complete picture of the firm's audit processes and resource utilization. Capturing all engagements where specialists and shared service centers are used, regardless of the extent of their involvement, provides a more comprehensive view as even minor contributions can be significant in ensuring audit quality. And overall setting such thresholds makes a simple metric complex, subjective and prone to the risk of misrepresentation.

For 26 (c) – For those firms that can showcase the industry experience and specialization, offering both aggregate and industry-specific metrics will not be difficult and cumbersome as they would have these details well-captured, and it would provide a more nuanced understanding of the firm's use of specialists and shared service centers.

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?

Our response

For 27 (a) - We support the proposal to broaden the description of shared service centers to include various arrangements such as that captive to an individual firm, those that are separate legal entities dedicated solely to an individual firm, those that provide similar services to several affiliated or non-affiliated firms, and those located in the same jurisdiction or another jurisdiction. Our view is that this detailed metric would enhance inclusiveness, accuracy, and comparability, reflecting modern practices and providing a transparent view of service center usage. Here the suggestion of narrative disclosure would be handy – as it can be specified by PCAOB, that the narrative need to be provided only when the firm uses the broader definition of a shared service center as opposed to the one defined in the Form AP guidance.

For 27 (b) - The increased granularity expected in this section is way deeper than the one expected in 27 (a). This might require additional effort and resources for firms to compile and report and even more strenuous for capturing data on a contemporaneous basis and this detailed effort may not be as useful to the stakeholders as the broadening of the definition in 27 (a).

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?

Our response

Appropriate

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?

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?

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?

Our response

Our comments below on 42, 43 and 44 highlight the importance of comprehensive, clear, and relevant metrics in assessing audit quality. Over time we have recognized the potential challenges and costs of tracking detailed time allocations but now have a determined belief that focusing on the core engagement team and including all specialist hours should provide more accurate and meaningful metrics for stakeholders. Needless to state, this approach enhances the reliability, comparability, and overall transparency of reported metrics.

For 43 - The metric should report the percentage of hours for the partners and managers on the core engagement team rather than all partners and managers on the engagement team. A more focused and relevant measure is that of the core engagement team that is primarily responsible for the significant risks and critical accounting areas. Limiting it to the core team ensures avoidance of potential dilution of the metric by those who may have a very minimal role to play and introduces clarity and consistency in reporting. It would be beneficial to standardize the scope of reporting across firms to those most directly involved in significant audit activities.

For 44 - Our rationale for including engaged specialists with employed specialists in this metric stem from the underlying benefits of comprehensive measurement of the hours contributed by engaged specialists playing a crucial role. It is also a reflection of the true resource utilization which would otherwise diminish the effort and expertise applied to critical areas by the engaged specialist. For the stakeholders, they get to view the audit resource allocation by a firm which in a way depicts the deeper understanding of the firm and its audit quality.

Restatement History

58. Are the proposed descriptions of revision restatement and reissuance restatement clear and appropriate? If not, what descriptions should we use?

Our response

Appropriate

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

Our response

The five-year period seems an appropriate timeframe for firms to report restatements of financial statements and management reports on internal control over financial reporting (ICFR). This period strikes a balance between providing sufficient historical context to

identify trends and patterns in audit quality and restatements and it also maintains the current relevance.

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

Our response

Revision restatements are important indicators of the quality and accuracy of financial reporting and the audit process. One gets a holistic picture of the firm's audit performance, reliability of the financial statements, and transparency from the fact that all restatements are reported and not just reissuance restatements.

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?

Our response

No comment

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?

Our response

No doubt, this approach provides a more accurate reflection of the extent and impact of the restatement. However, it is complicated reporting and seems difficult.

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

Our response

This metric means detailed insights into specific audits and their outcomes. This is for sure granular reporting. But, if one wants deeper accountability to assess the performance of audit teams by linking the restatements to the responsible engagement team, it would result in promoting higher standards of audit quality.

Brief summary of our comments on the metrics proposed by the PCAOB

Metrics proposed by the PCAOB	Our comments
Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.	Partner and Manager hours depending on the risk rating associated with the engagement and also with the size of the engagement. Hence proposing a single metric across the entire audit practice could be misleading since this could lead to averaging bias and a firm with High-Risk engagements will get a higher percentage of Partner/ Manager time compared to a similar sized firm with Low-risk engagements. The Firms should be requested to present the data of Engagement partner and engagement manager time (in % terms) across High, Medium, and Low risk engagements. This will allow for comparability between firms and will allow a qualitative assessment.
Workload. Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff, including time attributable to engagements, administrative duties, and all other matters.	Audit firms have workloads ranging between 60 hours per week to 80 hours per week during the peak audit season. Just having higher workload during peak months does not necessarily impact audit quality. Also, would this mean that an Audit Committee should prefer an audit firm which lower workload. The lower workload could be on account of the fact that the firm does not have relevant work/ sector experience.
Audit Resources – Use of Auditor's Specialists and Shared Service Centers. Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.	Refer to our comments/responses related to this metric in the section above, To reiterate, it would be essential for Firms to disclose the % of time incurred by Direct Tax, Indirect Tax, Valuation/ Corporate Finance, Financial Risk Management (FRM), Transfer pricing, Information Risk Management (IRM or IT specialists) which will allow comparison of firm which deploy specialists and those who don't.
Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.	The Board should allow inclusion of all post qualification experience of a professional (including experience in an industry role). Its possible that an engagement manager on the audit engagement for a bank was working with a foreign bank for 4 years prior to joining the public accounting firm and that this is providing

Metrics proposed by the PCAOB	Our comments
	necessary technical inputs to the audit team on the internal control processes of a bank.
Industry Experience of Audit Personnel. Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.	This metric should be combined with the above metric. For most public accounting firms, their audit personnel would have experience in other accounting firms. Most of them would not have industry experience and hence there is no need for a separate metric on this.
Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.	In case of voluntary rotation of audit Partners adopted by a Firm (e.g. 7 years rotation on PIE clients), how would this metric be calculated?
Audit Hours and Risk Areas (engagement-level only). Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.	Refer to our comments/responses related to this metric in the section above.
Allocation of Audit Hours. Percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement.	No comment
Quality Performance Ratings and Compensation (firm-level only). Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.	No comment
Audit Firms' Internal Monitoring. Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.	Disclosing the nature of engagement deficiencies at each engagement level could be very onerous. The number of deficiencies and broad category of deficiencies might be a better option.
Restatement History (firm-level only). Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past five years.	Refer to our comments/responses related to this metric in the section above. Additionally, restatements could occur either due to oversight on the part of the same audit firm or could also

Metrics proposed by the PCAOB	Our comments
	happen due to change of auditors – i.e. when an outgoing audit firm has mis-interpreted the application of a standard. Hence the reporting should be of misstatements which have occurred in relation in own financial statements and excluding re-statements of FS audited by a predecessor firm. Further, qualitative disclosure of broad items due to which re-statements have taken place could be encouraged so that users understand the nature of the re-statements.