



June 7, 2024

Via email: comments@pcaobus.org

Public Company Accounting Oversight Board
Attn: Office of the Secretary
1666 K Street NW
Washington, D.C. 20006-2803

Re: Proposing Release: Firm and Engagement Metrics; PCAOB Rulemaking Docket Matter No. 041

Dear Office of the Secretary:

BDO USA, P.C. welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposing Release No. 2024-002, *Firm and Engagement Metrics* (the proposal).

We are supportive of the PCAOB's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent reports through this and other efforts.

Notwithstanding that support, as an overarching comment and in light of the significance of the Board's proposal coupled with the corresponding Firm Reporting proposal and the Board's adoption of QC 1000 and AS 1000 that we are preparing for implementation, we do not believe the time afforded to reasonably consider and respond to this proposal is sufficient.

In the time provided, we have reviewed the release, and have structured our response letter as follows:

- 1) Reaffirm views expressed in our response to the PCAOB's Release No. 2015-005, *Concept Release on Audit Quality Indicators* (PCAOB's Concept Release)
- 2) Affirm support for the Center for Audit Quality's (CAQ) comment letter on this proposal
- 3) Propose alternatives
- 4) Discuss other matters

In addition, we have provided specific considerations for the proposed metrics and responses to certain of the questions posed on certain metrics in the appendix. Our comments are intended to be constructive in nature and reflect our commitment to protecting investors and furthering the public interest while weighing the effort, costs and benefits of the proposed changes. It is through that lens that many of our comments were developed.

1) Reaffirm views expressed in our response to the PCAOB's Concept Release

In our consideration of the Board's current proposal, we considered our prior response to the PCAOB's Concept Release and wish to reaffirm certain of our views expressed therein which we believe are still relevant to our consideration of the requirements within the Board's proposal.

Specifically, we continue to:

- 1) Support the use of certain firm and engagement metrics (FEM), (formerly audit quality indicators), in voluntary discussions with those concerned with the financial reporting and auditing processes, particularly the audit committee;
- 2) View the dialogue between the auditor and the audit committee as dynamic and shaped by the specific circumstances of each respective audit engagement;



- 3) Agree that quantitative measures may only be useful to the various auditing stakeholders when provided with sufficient context related to the issuer specific audit engagement;
- 4) Notwithstanding the proposed calculations behind the FEM in the release, and for the reasons discussed further below, view the comparability of FEM to be difficult for audit committees, investors and other stakeholders, due to the differences in audit engagements, audit firms, and the numerous variables present in each that would need to be considered in order to use them in making decisions regarding auditor appointment; and
- 5) Believe any mandatory imposition of publicizing FEM will need to include scalability and flexibility amongst firms, will require significant effort and cost, and will result in information of questionable value to the intended users.

2) Affirm Support for CAQ Comment Letter on this Proposal

We affirm support for the CAQ's comment letter to the proposal and specifically emphasize our support for the following points raised therein:

i. **Support for discussion of engagement-level metrics with the audit committee:**

As the audit committee is the body with statutory authority to appoint auditors of public companies, we believe some engagement-level metrics could contribute to an audit committee's decision-making process. We also believe the ability to engage in real-time dialogue in which a firm is able to provide the necessary context behind an engagement-level metric would be critical in allowing for a full understanding of the metric. We therefore support an approach to achieving the intended objectives of the Board's proposal by encouraging audit committees to engage in dialogue with their auditors regarding the engagement-level metrics that the audit committee believes are most relevant to the facts and circumstances surrounding the appointment of the auditor.

We support this approach for a number of reasons, most notably due to the substantial variety in both a firm's operational and structural differences as well as the vast differences between issuer audit clients, including the comparability of the audit for a given issuer from one year to the next. We note the Board's discussion of this concept on page 27 of the release which states:

"We understand that firms differ from each other in the number and types of audits they perform and their resources, including the number of partners, managers, and staff and their experience and degree of specialization. We also understand that engagements differ based on the size of the engagement, the industry of the company, the risks related to the company and the audit, whether it is a new engagement for the firm, or there has been a change in the engagement partner. This lack of standardization across both firms and engagements makes the task of comparison difficult. However, we believe that the proposed metrics would still provide useful information, enabling users to make both broad comparisons across the full population of reporting firms and accelerated filer and large accelerated filer audits, and more targeted comparisons across smaller subgroups of similar firms and engagements."

We respectfully submit that this acknowledgement does not adequately justify the proposal's mandate to publicly disclose the required engagement-level metrics or address the associated consequences that we discuss further below.

Unintended Consequence: In addition, we see the potential for the publication of FEM to undermine audit committee authority. More specifically, and as discussed further below in "Misinterpretation of



Metrics”, we see the potential for audit committees to be pressured by investors and other stakeholders to only appoint firms with FEM within certain ranges or below certain thresholds without fully considering the vast array of circumstances where firms perform high-quality audits but may have reporting metrics that fall beyond those ranges or in excess of certain thresholds. Consequently, we see an unintended consequence resulting in the potential to limit audit firm choices that could erode competition in the market.

Example - Allocation of audit hours: Varying circumstances for a given issuer from one year to the next could cause the percentage of total audit effort prior to the balance sheet date to fluctuate, potentially significantly (e.g., significant unusual, and unanticipated, transactions near the balance sheet date, going concern issues that arise after the balance sheet date, other unforeseen company delays). The public may perceive that as a direct result of a firm’s inability to properly manage the execution of the audit, disclose engagement-level metrics that fall outside the “tolerable range” and result in increased pressure on the audit committee to seek a change in auditors.

ii. Misinterpretation of FEM (and unintended consequences)

We note the Board’s discussion on page 24 where it states: “Our experience suggests that the value of the proposed disclosures would likely increase over time as users are able to aggregate multiple data points, make comparisons, and observe trends.” In contrast to this view, of the many unintended consequences of the proposal, we see an opportunity for the creation of ranges or thresholds for each metric that the public perceives to be acceptable and put pressure on audit committees to only appoint auditors with FEM that fall within those ranges or do not exceed tolerable thresholds despite the audit committee being satisfied that the audit firm performs high quality audits. Following the discussion above regarding the significant variability in the nature of both public companies and the firms that audit them, these perceived (and potentially artificial) ranges and tolerable thresholds could be potentially detrimental to and influence against focusing on the execution of quality audits. Instead of elevating the quality of audits, the publication of FEM could result in a race to achieving FEM that are within the public’s perception of acceptable ranges or thresholds to the detriment of executing an audit in a manner that otherwise complies with the spirit and intent of professional standards.

Notwithstanding the foregoing, we are supportive of the Board’s allowance for the opportunity for a firm to provide commentary regarding FEM in certain cases - but note that a 500-character limit may not be sufficient. The need for explanatory comments will be critical to avoid misinterpretation of the metrics in certain cases or assumptions about the underlying circumstances. However, doing so comes with the potential for increased tension on the auditor’s responsibility to maintain as confidential information related to its client’s operations and circumstances.

iii. Costly and Questionable Need

While the Board has attempted to quantify in dollars the investment firms would need to make to develop or upgrade its systems to comply with the requirements of the proposal, we respectfully submit that Board is overestimating a firm’s ability to do so within the proposal’s timeframe and underestimating the cost. As the Board is aware, firms including ours are consistently and regularly undertaking audit quality initiatives and deploying significant human, technological and financial resources in doing so - all while competing for a shrinking pool of qualified talent. We believe the cost and effort coupled with the aggressive timeframe proposed in the release could hinder firms’ already significant and continuous efforts to consistently improve audit quality.



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In addition, the costs associated with firms' efforts to enhance or develop enabling technologies to support compliance would serve to eventually increase audit fees. We see no indication that the Board has addressed whether investors and other stakeholders would place greater weight on the asserted benefits to them of the FEM against increased audit fees.

Further we echo the CAQ's concerns with whether the general investing public will review and or find useful the publication of these FEM. Notably, the insights from their November 2023 publication: "*Perspectives on Corporate Reporting, the Audit, and Regulatory Environment*" indicate that: 1) investors were mostly either unfamiliar with or unaware of audit quality reports already published by accounting firms and, 2) engagement-level metrics would be of greater interest (in contrast to firm level metrics) to investors.

Finally, we note the Board's discussion on page 128 where it states the following:

"However, audit committees may focus on the interests of current shareholders rather than the broader public interest (e.g., market confidence, potential future shareholders, or investors in other issuers). Furthermore, there are risks that the audit committee may not monitor the auditor effectively. For example, the auditor may seek to satisfy the interests of management rather than investors if management is able to exercise influence over the audit committee's supervision of the auditor. Such circumstances can lead to a *de facto* principal-agent relationship between company management and the auditor."

In light of this discussion, we question whether the Board's proposal will serve to strengthen the discipline and focus of an audit committee that chooses to not execute its statutory mandate with the rigor intended by the underlying regulations. We believe it is reasonable to assume that audit committees that today execute their statutory mandate with less than a thorough level of interest and attention, will continue to do so despite the additional FEM placed before them.

Further, as a result of the information in this section, we request clarification from the Board regarding its description of the need the proposal is addressing including evidence to support the problem.

iv. Legal Considerations

a. Competition-lessening effects

The Board states on page 23 of the proposal: "The firms themselves would also benefit from access to information about their peers." However, we echo the CAQ's concern over the Board's proposal to compel firms to publicly disclose information that can reasonably be characterized as confidential business information.

We acknowledge the Board's authority to collect and analyze directly from firms some of the data that would underly the FEM within the proposal. However, we believe publication of the FEM could raise potential concerns under both domestic and international fair competition laws. Similar to any other commercial enterprise, an accounting firm's human capital including the manner in which it deploys and remunerates that resource is tantamount to a trade secret at any other entity. Protecting that sensitive (and in some cases proprietary) information is critical to maintaining its ability to compete in the marketplace and attract and retain its workforce.

b. Materiality



The Board discusses on page 28 the use of rounding and estimation conventions. “This approach is consistent with existing Form AP, with allows firms to use a reasonable method to estimate certain information required in the calculation of total hours.” However, with believe the final rule should include a safe harbor for reporting that includes unintentional and immaterial deviations from an otherwise accurate reflection of a metric. We respectfully request the Board address its views in this regard. We echo the CAQ sentiment that, while it is important for us to continue to make investments in our systems that will allow us to comply with the Board’s rules, inspection findings and enforcement cases based on minor and unintentional errors will likely result in redirection of resources that would otherwise be focused on enhancing audit quality.

c. Disclosure of client confidential information

US Firm Considerations:

Following the discussion above regarding the need for extensive explanations for the FEM in certain cases, we also acknowledge the Board’s discussion on page 114 “Requests for confidential treatment not permitted.”

The Board’s allowance for a firm to provide color-commentary behind a metric that may warrant explanation of facts and circumstances that may otherwise not be apparent to the public may create tension against a firm’s requirement to maintain as confidential its client’s information.¹ In many instances, a metric (e.g., the “allocation of audit hours” metric) will likely be influenced by any number of changes in a client’s circumstances during a particular audit. The consummation of a significant business combination near the balance sheet date, the departure of key accounting personnel, the disruption of the client’s operations, the exposure to a cyber-attack, or any number of other events could cause a significant portion of the overall audit effort to occur after the balance sheet date. Without context, the public may be left to assume the metric was the result of poor management of the audit by the firm, and yet not accurately disclosing the circumstances that caused the metric to appear unreasonable may result in the disclosure of client-confidential information that impacted the metric.

Non-US Firm Considerations:

We also acknowledge the Board’s discussion on page 115 “Assertions of conflicts with non-U.S. law”.

As acknowledge by the Board, “there may be certain limitations with respect to the data or information about a firm, its personnel, or the performance of the firm’s engagements that a firm may communicate publicly because it may conflict with a non-U.S. law”. We have not yet determined the impact of laws in other countries/jurisdictions; however, we do believe that some conflicts may exist. In addition, given the limited quantity of issuers that a firm in a foreign jurisdiction may have, certain proposed FEM could in fact disclose identifiable information as the averages and aggregates would be very limited.

d. PCAOB’s statutory authority is not clear

Finally, with due respect and unequivocal acknowledgement of the Board’s authority to regulate the accounting profession that audits public companies and brokers and dealers, we echo the CAQ’s encouragement for the Board to further assess its statutory authority to compel firms to publish certain operational data.

As noted in the CAQ’s response, we believe that the Board should consider further its statutory authority to mandate firms to publish the information noted in the proposal, and should also consider the potential

¹ See, e.g., AICPA Code of Professional Conduct 1.700.001 (“A member in public practice shall not disclose any confidential client information without the specific consent of the client”).



impact of *Loper Bright Enterprises v. Raimondo*, a case currently pending with the Supreme Court, as to whether the Board is operating within its delegated authority. Please refer to the CAQ comment letter on this proposal for additional details.

3) Proposed Alternatives

In light of the foregoing concerns, we respectfully submit several alternative approaches for the Board's consideration.

i. **Audit Committees:**

Following our support for voluntary discussion of engagement-level metrics with the audit committee, we recommend the PCAOB consider expanding its guidance for audit committees through the publication of a Spotlight aimed at providing suggestions for their discussions with audit firms, specifically regarding the engagement-level metrics. We believe audit committees are in the best position to determine the engagement-level metrics that are most relevant to facts and circumstances of the engagement for which the auditor is to be appointed. Accordingly, the audit committee should be involved in the selection of the engagement-level metrics they believe are most meaningful to them in the context of the individual audit engagement.

ii. **Pilot Period:**

Private Pilot Period: Assuming the Board proceeds with the proposal, we recommend the Board consider a "pilot period" in which firms within the scope of the release privately submit to the Board certain of the FEM both at the firm and engagement level. We believe this will be beneficial for several reasons. It will allow firms an opportunity to better determine the nature and extent of data and system enhancements or broader infrastructure (in the form of new reporting systems that do not yet exist) and reduce disruptions to other ongoing audit quality initiatives. In addition, it will afford the Board, which is in the best position, the ability to perform comparative studies of the FEM across an array of firms and issuers. The Board could then consider producing a publication with analyses of the ranges for each of the relevant FEM once it has completed its comparative study. That information could serve as a basis for audit committees to engage in constructive dialogue with their auditors regarding the specifics of their engagement-level metrics.

Phased Pilot Period: Alternatively, we recommend the Board consider "piloting" the requirements of the release initially for audits of large-accelerated filers. This could have the benefit of allowing the public to absorb the FEM for audits of larger issuers, which could potentially be more sophisticated, initially and for questions regarding the benefits of further expansion of the FEM to be addressed, before subsequently introducing the variability that will likely come with introduction of FEM associated with the audits of smaller issuers.

Further, both of these pilot approaches could result in the PCAOB gathering more information to inform the Board's analysis of the economic impacts of requiring any such proposed firm and engagement-level metrics including how the benefits and costs achieve the Board's stated objectives, which we request to be clarified (see discussion of the need above).

iii. **Collect through inspections:**

We recommend the Board consider collecting certain FEM, and importantly, the data behind those FEM, through the inspection process. Notwithstanding the Board's acknowledgement of the disparity between firms and between audits of companies (page 27), we believe the lack of comparability of a given metric



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between firms and between different engagements cannot be overstated. We also believe the Board to be in the best position to identify comparability factors that may undermine the utility of the FEM or even more, introduce confusion into the market in potentially detrimental ways. As noted in the CAQ's November 2023 report, one investor noted that "firm level metrics would be quickly manipulated."²

iv. Threshold for Reporting on Form FM

We believe that the threshold for reporting on Form FM by firms that serve as lead auditor for one or a few accelerated filers or large accelerated filers is unreasonably burdensome, particularly for firms in foreign jurisdictions. We instead propose the Board consider a threshold of firms that audit more than 100 issuer audits (all classifications) before requiring a Form FM. This would improve the scalability of the proposal and still account for the overwhelming majority of U.S. public company market capitalization.

4) Other concerns

Auditor's Report:

We strongly oppose the proposal in the release to include engagement-level metrics within the auditor's report. Specifically, the proposal could potentially distract engagement teams from the intense focus required by them to conduct audit procedures during the critical post-balance sheet phase of the audit. We also believe the engagement-level metrics could diminish the focus on the important content already included in the auditor's report. Including metrics of this nature in the auditor's report may also inappropriately give rise to civil liability claims against auditors. Finally, we believe appropriate context included within the discussion of CAMs already provides investors with relevant and sufficient insight to the effort involved with audit.

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We appreciate your consideration of our comments and recommendations and would be pleased to discuss them with you at your convenience. Please direct any questions to John Rod, National Managing Principal - Assurance Quality Management jrod@bdo.com.

Very truly yours,

BDO USA, P.C.

² See page 10: *Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings* at <https://www.thecaq.org/perspectives-on-corporate-reporting-the-audit-and-regulatory-environment>.



Appendix: Responses to specific questions in PCAOB Release 2024-002

Responses to Certain Questions Posed in PCAOB Release 2024-002

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?

As noted in our cover letter, absent potentially extensive narrative disclosures, the utility of the FEM would likely be diminished.

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?

As discussed further in our cover letter, we strongly believe firms should be allowed to provide narrative disclosures regarding the FEM presented to provide appropriate context. However, as noted, doing so publicly comes with the potential for increased tension on the auditor's responsibility to maintain as confidential information related to its client's operations and circumstances, resulting in an inherent limitation on the ability to provide full context in all cases.

Key Terms and Concepts

10. If the firm assigns partners, managers, and staff to specific business lines (e.g., audit, tax), should the firm-level metrics only include partners, managers, and staff of the firm's audit practice? Why or why not?

Firm level metrics should look only to the firm's audit practice. We believe, the inclusion of other services lines in the metrics will exacerbate the lack of comparability between firms due to the varying size and scope of non-assurance practices.

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

The release includes several classifications of professionals that need to be applied by the firm to produce the FEM.

For example, page 32 indicates "members of the engagement team would include every partner and manager who worked on any aspect of the audit, even if their involvement was extremely limited.

In contrast, page 33 indicates "We propose to limit the concept of core engagement team to the engagement partner and personnel of the firm issuing the audit report who meet a minimum hours threshold. Under the proposed definition, the core engagement team would not include engagement team members whose participation was more limited and did not meet the hours threshold (for example, who only performed an inventory observation, helped on certain transactions, or consulted on specific matters). We are proposing to use a threshold of ten hours for partners and the lesser of 40 hours or 2% of total audit hours for managers and staff, because we believe that would filter out individuals whose participation in the engagement was limited or marginal."

The apparent inconsistency between the definitions of Engagement Team and Core Engagement Team could benefit from further clarification in the final standard.



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Further, the engagement team definition used in the engagement level metrics includes individuals from other participating firms (see examples on pages 39 - 41). The engagement level information is then aggregated into the firm level information. This results in non-firm data being included in the firm level metrics. We request the Board to clarify if it is appropriate for the lead audit firm to include other firm information in its annual Form FM.

14. Is the proposed definition of core engagement team appropriate? Are the proposed thresholds for core engagement team members appropriate?
- The proposed threshold for partners (excluding engagement partners) is ten or more hours on the engagement. Should the hour threshold be higher or lower or based on a certain percentage of the total audit hours? If so, what is a more appropriate threshold to determine whether partners are part of the core engagement team?
 - The proposed threshold for managers and staff is 40 or more hours or, if less, 2% or more of the total audit hours. Should the hour or percentage thresholds be different? If so, what should the hours and/or percentage be to determine whether managers and staff are part of the core engagement team?
 - Alternatively, should partners, managers, and staff who reported a certain percentage of the hours on the engagement, whether they are from the firm issuing the auditor's report (lead auditor) or other firms performing audit work (other auditors), be considered as part of the core engagement team? If so, why, and what should the threshold be for inclusion of individuals or other firms?

The creation of a thresholds for inclusion/reporting of certain engagement-level metrics on Form AP is in conflict with other existing aspects of Form AP with no materiality threshold.

As noted previously, there will be many challenges for firms to accumulate and report this data. The types of data necessary for the core engagement team FEM (industry experience and workload) may be difficult to obtain from firms who are not required to report on Form FM or Form AP. Additional time may be needed for implementation of these metrics.

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

The Form AP hours is the correct base to use for total audit hours. However, as the metrics presented may be based on the Core Engagement team, the information presented may not be representative of the total audit. For example, Form AP hours include all audit participants, external non-accounting firms and may also include estimates.

17. Is it appropriate to include total audit hours for all issuer engagements in the firm-level metrics, as proposed? Or should the metric be limited to total audit hours for large accelerated filer and accelerated filer engagements? Why or why not?

The use of "total hours" at the firm level as defined would mean including hours incurred by other participants in group audit scenarios. It may be misleading therefore, to refer to these as "firm level metrics" when they are in reality "firm plus other auditor" metrics.

Partner and Manager Involvement

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



Appendix: Responses to specific questions in PCAOB Release 2024-002

We do not believe it is necessary to separate the calculations for partner involvement and manager involvement. We agree with the release that the combined time is indicative of engagement oversight and supervision.

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?

We do not believe a separate calculation of the engagement partner's involvement is necessary. The combined time of partners and managers is indicative of engagement oversight and supervision.

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?

We believe the percentage metric is preferable to absolute hours.

Workload

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

We request the Board reconsider the inclusion in this metric of partners and professional staff who do not work on issuer audits. We believe comingling statistics associated with professionals who do not participate in any way on the firm's issuer audits to be contrary to the stated objective of "advancing investor protection and promoting the public interest by enabling stakeholders to make better-informed decisions..."

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

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

If included in the final standard, we encourage the Board to narrow the scope of the disclosure of these metrics to a firm's issuer practice; we do not see the relevance to investors of a firm's use of specialists or shared service centers on its non-issuer engagements.

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?



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We believe expanding the experience metric to extend beyond time employed at a public accounting firm is appropriate. We recommend the Board consider expanding the metric to allow for disclosure of total professional experience, a subset of which could then be identified as time having worked specifically within the public accounting profession, and more specifically - another subset that focuses on time spent working on issuer audits.

Notwithstanding the foregoing, we echo the CAQ's commentary that, while we have appropriate measures in place to vet a candidate's resume prior to extending an offer, we will incur significant cost and resources to verify and track this data for purposes of public disclosure.

Industry Experience of Audit Personnel

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 do believe that more recent experience to be relevant to achieving the intended objective of this metric. Our partners have decades of cumulative experience, in many cases spanning a number of different industries. More recent years of experience in an industry in which a partner is currently serving one or more of the firm's clients would not be enhanced by tracking and adding to it several years the partner happened to have within that industry at the beginning of their career.

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?

We note that this firm level metric appears to apply to a firm's entire audit practice, including in some cases an extensive non-issuer audit practice. In addition, the metric appears to apply to all of a firm's audit partners. Similar to our response to Q26, we propose the Board consider narrowing the scope of this firm level metric to a firm's issuer audit practice, including partners who serve on the firm's issuer audits and/or sign issuer audit opinions.

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 proposed, this metric will be much more challenging than the Board seems to have acknowledged in the release. Specifically, the evolution of standardized industry codification will make the required look-back and tracking of industry experience challenging, if not impractical.

Quality Performance Ratings and Compensation

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?



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Yes, we believe disclosing a firm's policies in this regard would serve to achieve the intended objective without disclosing potentially confidential information regarding the compensation percentages required by this metric. In addition, similar to our views on the other metrics, while audit quality is certainly an important consideration in compensation calculations, there are a number of other factors that would serve to provide a full explanation for compensation decisions, disclosure of which would be in tension with requirements to maintain as confidential varying elements of personnel and their performance.

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?

Unrelated to the specific question being posed here, we have broad concerns over the proposed disclosure of this metric and see the potential for unintended consequences. Once these metrics become public, firms could come under pressure from various constituencies to report results that are within a perceived acceptable range (and without having to provide extensive narrative for results that fall outside of that perceived range). Firms would arguably need to safeguard against these pressure points to maintain the effectiveness of their internal inspection programs and facilitate the continuous improvement aspect of its system of quality management. The risk of the introduction of these pressures does not seem to have been taken into consideration by the Board when weighing the costs and benefits of including this among the suite of proposed metrics.

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 request the Board to provide further clarity on how mandating public disclosure of deficiencies identified in a firm's internal inspection of a particular audit is not contrary to the manner in which the Board anonymizes the issuer name of audits included in Part I of its inspection reports.

In addition, we request the Board provide further discussion of the basis on which it contends that disclosure of deficiencies associated with inspections of issuers in certain non-US jurisdictions would not come in conflict with privacy and other related restrictions in those jurisdictions.

Restatement History

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

No, we do not believe firms should be required to disclose revision restatements. We believe disclosures of these events are better served through the issuer's compliance with SEC disclosure requirements for revision restatements.



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

Similar to the above, we do not believe that engagement level restatement history should be reported on Form AP as it is already publicly available through existing SEC and other platforms. We also believe the time frame should be consistent with the three-year requirement in annual financial statements.

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?

We are supportive of a September 30 reporting date but would propose a longer period of time in which to submit Form FM in the initial years after the effectiveness of the release.

Inclusion of Metrics in the Audit Report

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

As stated in our cover letter, we do not believe it would be appropriate to include metrics in the auditor's report.

Documentation

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

We have not had the opportunity to fully consider these potential additional metrics and propose that the Board conduct further outreach before proceeding to expand any mandatory reporting of metrics.

Need

94. Are there additional studies or data that would inform our analysis of the need? If so, please direct us to them and explain how they would inform the analysis.

As described in our cover letter, we do not believe the intended benefits and objectives of the release have been adequately supported, particularly in light of contradictory evidence such as that included in the CAQ's Perspectives on Corporate Reporting regarding investor's awareness of existing audit quality report.

Effective Date

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

Yes, the effective date would be challenging for auditors. An effective date of October 1, 2025, or approximately 15 months from the date of this response letter is inadequate to provide firms with the time needed to thoughtfully 1) design, implement and operate the enhancements to its information systems, 2) educate its internal process owners regarding the reporting required by the release (and introduce new roles and responsibilities for doing so that as of today do not exist), and 3) design, implement and operate policies and procedures to ensure accurate recording of the



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Appendix: Responses to specific questions in PCAOB Release 2024-002

required data (i.e., audit hours over significant risk areas, industry experience tracking throughout a professional's entire career, etc..).

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