June 7, 2024

Erica Y. Williams, Chair
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St. NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 041

Dear Chair Williams:

The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide input on the Public Company Accounting Oversight Board's (PCAOB) questions and topics included in the Proposed Amendments to PCAOB Auditing Standards Related to Firm and Engagement Metrics. The PICPA is a professional CPA association of about 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The PICPA's comments are included below.

The PICPA disagrees with the proposal to publicly communicate engagement-specific information. It could be misleading and result in a breach of client confidentiality requirements. Taken out of context, the asked-for metrics could trigger an overreaction by investors, resulting in investment decisions based on audit engagement information rather than on the financial statements themselves. We do believe that some of the engagement-specific metrics could be good for internal monitoring or supplied on engagements selected for PCAOB's inspection process.

We agree that audit quality is important. However, attempts to link audit firm and engagement data to investor decision-making is concerning. In fact, despite the record-setting PCAOB fines, many audit quality studies reveal that audit quality is improving, deficiencies are narrowly focused, and financial statement restatements are down. Immediate focus is needed on how to substantially improve audit quality through leveraging technology as opposed to developing time-tracking systems to comply with regulatory requirements that are not effective in accomplishing useful quality goals.

Separately, we want to highlight that the profession is facing a critical talent shortage, and this proposal would add additional time and effort that would detract from the core engagement performance and diminish audit quality rather than increase it. Instead of adding burdensome administrative requirements, we recommend that the PCAOB evaluate whether the existing financial statement and auditing ecosystem is overly complicated and where excessive administrative requirements can be eliminated.

Our comments on the proposed 11 metrics and selected related questions included in the proposal follow.

1. Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.

We are supportive of communicating firmwide metrics for partner and manager involvement but have concerns regarding the communication of this information at the engagement level. There are many reasons for human resource allocation decisions that will not be captured in the communication. Otherwise, we have no specific comments on the measurement, definitions, or thresholds.

2. 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.

We do not support the publication of this firmwide data. Many firms have moved away from the burden of time reporting. Therefore, this requirement would add additional administrative costs, which many practitioners cannot afford. Additionally, in many cases engagements are performed for fixed fees where firms do not have any incentive to track time.

3. 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.

We do not support the publication of information on the use of specialists and shared-service centers at the engagement level. We do not believe that these are comparable across audits or firms. The use of specialists is a direct result of engagement complexity.

The use of shared-service centers in many cases results in audit quality enhancements such that the shared-service centers perform specific audit tasks repeatedly, resulting in a greater depth of knowledge in these areas (e.g., accounts payable, audit confirmations, etc.). Firms are also increasingly using shared-service centers to compensate for a growing talent shortage in the United States. Firms do need to spend additional time and effort to ensure that these resources are properly managed, however, in and of themselves, we believe that investors could be misled to believe that the use of shared-service centers could have a negative impact on quality.

While we do not support the publication of this information at the engagement level, we do think that it should be evaluated using a risk-based approach during a firm's monitoring and inspection program, with firms disaggregating this information by industry and correlating the information to engagement deficiencies or restatements to ensure that there are no quality issues with their shared-service centers. We do not believe that these metrics should be public information.

4. 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.

See comment on #6.

5. 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.

See comment on #6.

6. Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

Question 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?

PICPA
Pennsylvania Institute of CPAs

We disagree with providing engagement-level reporting because this metric could be misleading and potentially punitive to engagement teams and their clients. Firms are required to maintain a system of quality control, or quality management, that ensures that all engagements are performed in accordance with professional standards. This includes audits for audit engagements where turnover is higher than other engagements. We are also concerned about reporting this metric at the firm level since it would not be presented in context (e.g., changes in firm structure, shifting industry concentrations, eliminating personnel due to performance or ethical concerns, independence issues resulting in the departure of firm personnel, etc.). As a result, it could be misconstrued and present firms with a competitive disadvantage for recruiting talent.

Question 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?

We agree with the descriptions and calculations.

Question 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?

We agree with the descriptions and calculations.

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

While audit seniors play a critical role on the audit, we do not support the disclosure of engagement-level retention rates for this level of professional. Given their career advancement potential, turnover is expected in this position, and having continuity at the partner and manager levels offsets any potential loss of knowledge through turnover at the senior level.

Question 40. Are there alternative metrics that may be more useful than the proposed retention rate or headcount change? If so, what are they?

No comment.

7. 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.

Question 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 disagree with this proposed reporting metric. Engagement time tracking and allocation is not a perfect science, and staff may not be able to accurately and consistently track time spent on significant risks, critical accounting policies, and critical accounting estimates. Does this include an allocation of time spent working on the related financial statement disclosure checklist, or a portion of the consideration of the related internal control testing, or fraud risk considerations? As audit risk assessment is iterative, would the staff have to track segments of time spent on audit risk assessment that relates to these tracking requirements or reconsider their time tracking at the conclusion of the engagement to update it for any changes? As to what constitutes a significant risk critical accounting estimate or critical accounting policies, it varies from client to client. Developing a firmwide tracking mechanism for compliance would be problematic. Time-tracking policies and procedures would be cumbersome, and compliance monitoring would be imperfect. To what degree would firms be held accountable for inaccuracies or inconsistencies in this data?

This creates an additional regulatory burden that engagement teams can ill-afford. We believe that time is better spent on the actual engagement work. Furthermore, it is not clear how this information would be used. The proposed metric could also inappropriately reward inefficient audit work if more time on these areas is seen an audit quality indicator. Similarly, the number of hours spent would not convey efficiencies or substantive improvements garnered through the use of technology.

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

Firm time tracking varies by firm, and some may not be capturing this information at the proposed level of granularity. We are concerned regarding the cost of tracking this metric and the quality of the information produced. (See additional comments at question 41.)

Question 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?

See additional comments at question 41.

Question 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?

The distinction between these different resources is not useful in this context. They should be reported in similar manners (e.g., internal actuaries similar to external actuaries).

8. 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.

Question 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 do not support the public communication of this information. We do not believe that it is directly related to audit quality. The timing of the engagement procedures depends on many variables, including the nature of the audit areas, specific risks on an engagement, the effectiveness of interim and roll-forward procedures, the availability of staff, when the client is available, the client's specific financial reporting systems, and internal controls. We believe that this information could potentially be misleading or misinterpreted.

Question 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. Similar to our comments on question 45, this information varies depending on many engagement-specific and firmwide human resource allocation decisions. We do not believe that external communication of this level of detail would be valuable.

Question 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.)?

See further discussion at question 45.

9. 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.

Question 48. Are the proposed metrics and calculations for quality performance ratings and compensation clear and appropriate? If not, why not? Are there other metrics that would be appropriate? If so, what are they? Is there another way to calculate the correlation between partner performance and compensation? If so, please provide an example.

See response to question 53.

Question 49. Is the proposal to exempt firms that are exempt from the SEC's partner rotation rule clear and appropriate? If not, why not? Is there a more suitable threshold to exempt smaller firms from reporting this metric? If so, what would be an alternative threshold and why should those firms be exempt?

We support the proposed exemption of firms that are exempt from the SEC's partner rotation rule.

Question 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?

See response to question 53.

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

We do not support further defining how partner compensation is measured.

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

Equity partners should be treated similarly to nonequity partners. However, as compensation structures are likely to vary between these partners, separate disclosures would need to be provided.

Question 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?

Due to variations in partner compensation methodologies across firms, we do not believe this metric would provide value to distinguish among firms. Instead, we support disclosure of the firms' policies for integrating a measure of audit quality into the determination of a partner's compensation.

10. 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.

Question 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?

We support the disclosure of the proposed firm-level metrics. We do not support requiring the disclosure of actual numbers of engagement deficiencies identified in the firm's most recent monitoring calendar. This information needs to be evaluated in context. For example, for audits with deficiencies identified, how many of those audits had five or more deficiencies or less than five deficiencies would provide more meaningful context.

Question 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 do not support the publication of engagement specific information. This data could be misleading. Investors may not have a clear understanding of monitoring procedures, what constitutes an engagement deficiency, the standards for addressing engagement deficiencies after the report has been issued, or how the engagement was remediated. This could create a false impression that there are financial statement reporting or internal control issues when there isn't.

We find the example engagement-level reporting for Form AP on page 100 alarming. Is it suggesting that the controls were not properly designed or effective over property, plant, and equipment? Or that the disclosures over fair value were inadequate? Firms are required to address the engagement remediation in accordance with PCAOB standards. However, there is no column regarding the remedial actions or whether the financial statements required restatement. Further, auditors would be precluded from responding to investor questions regarding the impact of these deficiencies on internal controls and on the financial statements due to client confidentiality requirements.

Question 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?

See comments at question 55.

Question 57. For each engagement deficiency identified that relates to (1) financial statement line items or (2) disclosures, we are proposing that the type of testing deficiency be identified (e.g., testing of design or testing of control effectiveness), whereas for deficiencies related to (3) other noncompliance with applicable professional and legal requirements we are proposing that the standard or rule with which the noncompliance was identified also be disclosed. Should we require that the standard or rule with which noncompliance was identified be disclosed in all cases? Why or why not?

See comments at question 55.

11. Restatement History (firm-level only). Restatements of financial statements and management reports on ICFR that were audited by the firm over the past five years.

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

We agree that the proposed descriptions are clear.

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

We believe that five years is too long. It should be reduced to three.

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

Based on the definition of revision restatement, the impact on previously issued financial statements is immaterial. Therefore, tracking and reporting this metric is unnecessarily punitive.

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

No comment.

Additional Questions

Question 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?

We agree with the threshold for firm-level reporting. It appropriately targets the largest companies having a significant impact on the market capitalization of issuers.

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

No comment.

Question 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 nonaccelerated filers? And if so, why?

We do not support the reporting of engagement-level metrics. However, in the event that such metrics are required, we agree that the threshold for engagement-level metrics is appropriately focused on audits of accelerated or large accelerated filers, and we do not support engagement-level metrics for nonaccelerated filers. We have no comment on the metrics for audits of investment companies.

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

We support robust conversations with the audit committee. We believe that providing certain engagement-level metrics could promote more meaningful conversations.

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

We do not support the inclusion of firm- or engagement-level metrics in the audit report. We are concerned that companies could be punished due to investor misunderstanding of the meaning of firm- or engagement-level metrics. As management is ultimately responsible for the accuracy of the financial statements, this would result in too much emphasis on the financial statement auditor.

Question 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 are concerned regarding incorporating the workload, time reporting, and retention metrics into the auditor report. These systems are typically not tied together and, as discussed in our comments above, the time-reporting allocations by area is frequently subject to significant estimates. These systems are not and cannot be expected to be audited. Work is being performed up to the time the financial statements are issued, and audit documentation could be finalized up to the documentation completion date per AS 1215: Audit Documentation. Therefore, the information on time allocation would be incomplete. This could potentially result in increased numbers of audit report revisions if the information included therein is subsequently found to be misstated.

Question 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)?

No comment.

We appreciate your consideration of our comments and are available to discuss any of these comments with you at your convenience.

Sincerely,

Allison M. Henry, CPA
Vice President – Professional & Technical Standards
PICPA