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June 7, 2024

By email: comments@pcaobus.org

Ms. Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 041: *Firm and Engagement Metrics* (PCAOB Release No. 2024-002)

Dear Ms. Brown:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) proposal to require certain registered public accounting firms to publicly report specific metrics relating to their audits and audit practices (the Proposal).

General Observations

Crowe is committed to providing relevant, decision-useful information about both the firm and the audits we perform for the benefit of audit committees, shareholders and other investors, regulators, and other stakeholders. One way we demonstrate this commitment is by voluntarily providing an annual audit quality report that illustrates how we are organized, operated, and monitored. While we support the PCAOB's objective to provide information, context, and perspective on auditors and audit engagements, we have concerns about aspects of the Proposal and question its ability to provide decision-useful information.

The Proposal notes that "comparability has been a common objective both for the PCAOB and for other regulators." We do not believe, however, that the metrics provided pursuant to the Proposal will be comparable between firms. As noted in the release, firms differ from each other in size, the number and type of audits they perform, structure, and specialization, among other factors. A firm's quality control policies and procedures can also affect the composition of an engagement team and procedures performed during the audit. In addition to the characteristics of the firm affecting the metrics, the audit will be affected by characteristics of the company being audited, such as its structure, risks of material misstatement, IT systems, and transactions conducted during the year under audit. Each of these factors will have a direct effect on the data underlying the metrics reported by a firm, both at the firm level and at the engagement level. While the Board acknowledges that the lack of standardization across firms and engagements makes comparison difficult, they submit that "the proposed metrics would still provide useful information, enabling…comparisons." Given the range of registered firms, and the number of factors that will influence the data underlying the metrics, we do not agree that the metrics as proposed will be comparable. To the contrary, we believe that it will be inappropriate to draw comparisons between the metrics at different firms and for stakeholders to interpret signals from those comparisons. There is such a wide range of potential variables that will affect the metrics in any year, that comparisons will likely be of limited usefulness.

In addition to our concerns about the lack of comparability between firms, we have concerns about the Proposal's suggestion that the metrics can be used to make comparisons over time, even within the same firm. As noted in the Proposal, "an important benefit of mandatory reporting would be the ability of investors and other stakeholders to compare the metrics, within the same firm over time, among firms, and among engagements." Comparisons over time, however, will only be useful or meaningful if there is a clear, evidence-based threshold or benchmark against which the metric can be assessed. For example, the Proposal notes in the discussion of the retention and tenure metric that "…a comparatively high rate of turnover…could adversely affect the audit." There is no data provided, however, about what would constitute a "high" rate of turnover, leaving users to infer what may be considered a "high" rate of turnover. Considering certain turnover is mandated by PCAOB and SEC rules, and some firms have implemented additional rotation requirements for other engagement team members, turnover is to be expected. On a smaller engagement team, the mandatory rotation of one or two team members may result in what appears to be "a comparatively high rate of turnover." We are concerned that changes in metrics from one year to another would be scrutinized or potentially inappropriately criticized, and incorrect conclusions may be drawn from a single data point. For other metrics, it may not be clear which direction of change a user should view favorably. In fact, there may not even be agreement on whether a change in a metric is a positive, negative, or neutral indicator. Absent an indication of thresholds or benchmarks – that are evidence-based and appropriate across all firms – we are concerned that the signals from these metrics will not be clear.

We noted the Proposal permits firms to provide a brief narrative disclosure with any or all of the metrics to provide any context that the firm thinks is necessary for an appropriate understanding of the reported metrics. For two reasons, we do not believe that this option alleviates our concerns. Firstly, the narrative disclosure would be limited to 500 characters. Depending on the specific metric, and the facts and circumstances underlying a particular metric, 500 characters is unlikely to be sufficient to give a user appropriate context to a metric. Secondly, as noted above, the metrics will vary between firms due to different sizes, structures, and policies and procedures. Firms may not know the reasons their metrics deviate from other firms, and therefore may not be able to provide meaningful context in a narrative disclosure.

The Proposal states that these metrics are proposed "primarily with a view to providing information that investors could use in making investment decisions, such as ratifying the selection of the auditor and voting for members of the board of directors, including directors who serve on the audit committee." Given the lack of comparability inherent in the metrics, and the lack of a consistent means to assess changes in the metrics within a firm, we question how effective engagement-level metrics would be in assisting investors with their auditor ratification decision.

The Proposal identifies audit committees as a secondary beneficiary of the information provided by the metrics, but we believe that audit committees should be the primary beneficiary. Given the audit committee's statutory authority to appoint, compensate, and oversee the auditor, we believe the audit committee would derive a greater benefit from engagement-level metrics than investors. Audit committees will have the ability to have a fulsome discussion with the auditor about specific engagement metrics, including the reasons for a metric changing year-over-year. That knowledge can assist audit committees in executing their responsibilities. Accordingly, we support having a discussion with the audit committee as part of audit planning discussions to understand which engagement-specific metrics would be most useful to them in exercising their statutory authority. These discussions can identify which metrics the auditor will report to the audit committee, how the metric(s) will be calculated, and when the metric(s) will be provided to the audit committee. Through the ongoing, robust dialogue with the audit committee, the auditor can provide the necessary context for the metric, and the audit committee will have the opportunity to ask any questions and obtain the information they need to understand the metrics and oversee the auditor.

To the extent investors need additional information to inform their voting decisions, the audit committee has the ability to provide that information in their report in the proxy statement, including a summary of the metrics they used to assess the auditor. This expanded reporting could provide investors with insight into how the audit committee executed its statutory authority and the factors the audit committee considered when selecting the auditor, thereby fulfilling investor's need for information both to assess whether to ratify the audit committee's selection of auditor and whether to vote for those board members who serve on the audit committee.

We strongly encourage the PCAOB to conduct field testing and outreach before adopting a final rule. Field testing would allow the PCAOB and firms to preliminarily compute certain metrics and identify specific challenges and costs associated with developing the metrics. The PCAOB can engage a range of stakeholders on the useability of the metrics determined through the field testing and assess how, or whether, the metrics add to the total mix of information used by stakeholders. Additionally, the PCAOB should use the discussions it has with audit committee chairs as part of its annual inspection program to inquire about the metrics the audit committee currently uses when overseeing the audit and to understand what additional metrics audit committees may find useful. We think it is critical to conduct this field testing and additional outreach prior to adopting a final standard so that an optimal set of metrics are identified and the costs and efforts that firms undertake will be focused on that refined and tested set of metrics.

Specific Areas of Comment

Definitions

We appreciate the PCAOB's efforts to base the calculations of the firm and engagement metrics on a set of defined terms and concepts. We are concerned, however, about the number of variations used in the metrics. Certain metrics include all partners, managers, and staff that participate in audits, whereas other metrics use data from the engagement team, and others include just the core engagement team. The number of different groupings of firm personnel adds significant complexity to both calculating the metrics and understanding them. In general, we believe the metrics should focus on issuer audits only, and those partners, managers, and staff who work on issuer audits. By keeping the metrics directed at issuer audits and a firm's issuer audit practice, the metrics will not be further complicated by trends in non-issuer audits and firms will not be in a position of potentially needing to provide information about their non-issuer audit practice as context for a metric.

We also provide specific suggestions on the individuals considered in certain metrics below.

Workload

We have concerns about the workload metric as currently defined.

At a firm-level, we question the usefulness of a metric presenting average weekly hours worked for all (1) engagement partners and (2) partners, managers, and staff. Because this metric would include such a wide range of the firm's personnel, it will encompass individuals who work on engagements other than issuer audits (e.g., employee benefit plan audits, or governmental entities) that may have a different "busy season" than those individuals who work on issuer audits. As such, this metric may show a relatively consistent average weekly hour throughout the year across the firm, even though specific individuals may have more variability in their schedules.

At both the firm- and engagement-level, we have concerns about the effort that will be involved in collecting and analyzing hours data on a weekly basis. It will be a significant undertaking for firms to implement systems to collect and analyze the specific data needed for this metric, and to design and execute controls over the calculation of the metric.

If the PCAOB were to move forward with a metric that communicates a measure of workload, we encourage the PCAOB to limit that metric to those individuals who work on issuer audits and require presentation of the metric on an annual basis. We believe a firm-level annual workload metric would provide information about the hours worked by partners, managers, and staff who participate on issuer audits while reducing the cost and effort associated with determining the metric. We also believe an annual metric would be more comparable as it would minimize the impact of differences in the timing of audits.

Audit Resources

Use of Auditor's Specialist

While we do not object to disclosing the percentage of issuer audits that use an auditor's specialist at a firm level, we have concerns about the usefulness of this metric given the variability in when and how specialists are used in an audit. For example, some firms may have policies that require the use of specialists in certain situations, potentially causing their Audit Resources – Use of Auditor's Specialist metric to be higher than another firm. The metric also does not specify a minimum level of involvement by a specialist; therefore, an audit in which a specialist was used for one hour of work would be counted the same as an audit that used a specialist extensively in an audit area. We question how useful these metrics will be in light of the potential variability.

We do not support disclosing the percentage of specialist hours at the engagement level for several reasons. First, specialist hours will vary depending on the nature of the account or transaction that the specialist is involved in, the extent of work that the specialist performs (e.g., whether the specialist or the engagement team is testing the underlying data), and whether the issuer has effective controls in place that the engagement team can rely upon, among other factors. None of these factors affect the quality of the engagement team's, or the specialist's, work. Secondly, we believe estimating the hours incurred by an auditor-engaged specialist will add additional variability and complexity to the metrics as each firm determines its own implied rate per hour for engaged specialists.

Auditors currently communicate the use of specialists to the audit committee under Auditing Standard 1301, *Communications with Audit Committees*, and the audit committee has the ability to inquire about the specific work the specialist(s) perform, leading to more fulsome information than what would be provided by this metric.

Shared Service Centers

We do not support disclosing use of shared service centers (SSCs) at a firm level. This metric will not be comparable across firms due to the different structures of firms and differences in how firms use SSCs. As noted in the Proposal, firms may use personnel at SSCs to input data or check the mathematical accuracy of certain schedules. We do not believe the nature of work generally being performed by SSCs warrants separate disclosure in a firm-level metric.

We support disclosure to the audit committee about the use of a SSC, including disclosure of the nature of the work performed at the SSC, but do not believe the hours incurred by the SSC is a useful metric.

Experience of Audit Personnel

We do not object to disclosure of the experience of audit personnel at a firm level in Form FM or at an engagement level to the audit committee, with certain proposed modifications. We recommend the PCAOB revise the firm-level calculation to report the average experience of only engagement partners and partners and managers who work on issuer audits. Firms may use different personnel on issuer audits and non-issuer audits. Including all engagement partners, or all partners and managers – regardless of whether they work on issuer audits – does not provide an accurate view of the experience of personnel that may be staffed on an issuer audit.

Industry Experience of Audit Personnel

We have concerns about the proposed firm- and engagement-level metrics related to industry experience of audit personnel.

The Proposal's method of calculating a year of industry experience is overly prescriptive and not practical to apply. The Proposal notes that a firm could accumulate the information about industry experience through the firm's time-keeping system or from personnel self-reporting. The firm's time-keeping system maintains data for a finite period of time; it will only provide data to support industry experience for more recent years. Also, for personnel that join a firm as an experienced hire, the firm's time-keeping system does not include data for those individuals. While the Proposal acknowledges self-reporting as an option, we have concerns about the ability of personnel to accurately determine whether they worked 250 hours or more in a specific industry going back many years, potentially decades. In addition, the firm may need to implement quality controls around the accumulation and reporting of this data, which will be significantly more challenging when it is based on individual personnel's recollections.

If the PCAOB were to pursue a firm-level metric, we strongly encourage the PCAOB to identify qualitative thresholds for determining industry experience. We also believe firms should only be required to report industry experience for those industries that represent more than 10% of the firm revenue from issuer audit services.

Audit Hours and Risk Areas

We do not support disclosing the percentage of total audit hours incurred on significant risks, critical accounting policies and practices, and critical accounting estimates.

We do not track audit hours at this level of detail and question if it would be possible to compile hours data at this level of detail in a reasonable, consistent manner. As the PCAOB has highlighted as a good practice in certain Spotlight documents, engagement teams tailor identified risks of material misstatement based on where and how a material misstatement could arise within a particular account, assertion, or transaction. This can result in a narrowly defined significant risk within a larger account or transaction. As an example, the engagement team for a bank audit, after obtaining an understanding of how the Allowance for Credit Losses (ACL) is developed, may identify a significant risk related to the application of qualitative factors within the ACL model. Under the proposed metric, each member of the engagement team would need to separately track the time spent auditing qualitative factors separately from other audit procedures on the ACL. Certain procedures, particularly as it relates to tests of controls, may relate to both the qualitative factors and other aspects of the ACL, adding further confusion to where that time should be captured.

Conversely, some significant risks are pervasive, such as the risk of management override of controls. While there are specific procedures, such as testing of journal entries, that could be clearly identified for purposes of tracking the hours incurred on significant risks, other procedures the engagement team performs related to accounting estimates, controls that involve a review element, and evaluation of audit results support the auditor's response to that pervasive risk. It will be very challenging to accurately and consistently capture the hours each engagement team incurred to audit a pervasive significant risk.

Notwithstanding the challenges to identifying the hours that reasonably should be captured related to significant risks, critical accounting policies and practices, and critical accounting estimates, our systems are not currently configured for engagement teams to record their time in this way. To determine this metric, we would need to amend our system and implement the appropriate change management activities as all personnel that participate in an audit will need to change how they have historically recorded their time. This will be a significant undertaking to change not only our systems, but also auditors' behaviors around time keeping.

We believe it is more meaningful to continue to have a robust discussion with the audit committee – who are responsible for overseeing the audit – about the areas of significant risk, critical accounting policies and practices, and critical accounting estimates. That discussion can include not only identification of the specific risks and areas but also our planned audit approach and the results of our audit procedures.

Quality Performance Ratings and Compensation

We do not support disclosure of the proposed quality performance ratings and compensation metric.

There are numerous factors that are considered by firms in determining compensation adjustments; quality performance ratings are an important factor, but not the only one. The proposed metric implies a direct correlation between the quality performance rating and the compensation adjustment, without acknowledgement of the myriad of other quantitative and qualitative factors that influence compensation.

We do not believe it is appropriate, nor useful, to cherry-pick two pieces of data and present them in this way. As such, we strongly disagree with the proposed reporting of this metric.

Audit Firm's Internal Monitoring

We have serious concerns about certain aspects of the proposed firm- and engagement-level metrics related to the audit firm's internal monitoring. As proposed, elements of these metrics would go beyond the PCAOB's own inspection reporting, forcing the auditor to disclose information that the PCAOB has determined – either due to statutory restrictions or based on policy decisions – not to disclose themselves.

As discussed above, we generally do not support public reporting of engagement-level metrics and instead, favor reporting to the audit committee to support their statutory requirement to oversee the auditor. We strongly object to public disclosure about the nature of deficiencies at an engagement level. We believe this type of reporting may call into question the accuracy of the auditor's report, when there is no indication that the financial statements or management's assessment of internal control, if applicable, are misstated. An incorrect signal extracted from this metric could have significant negative ramifications for the capital markets.

While we do not object to disclosing the percentage of issuer audits that were selected for internal monitoring at a firm level, we do not support disclosing the percentage of internally inspected issuer engagements where the firm identified an engagement deficiency. The PCAOB's definition of an "engagement deficiency" in the Proposal is less severe than a deficiency that would result in an audit being included in Part I.A of an inspection report. We do not believe it would be useful, or understandable, to use different thresholds for publicly identifying deficiencies in completed engagements.

We are also concerned about the lack of comparability in this metric both between firms and within the same firm for different years. Firms may use internal inspections to serve a range of purposes or objectives. Internal inspections may be used to assess auditor's performance in an area of recurring deficiencies, or to assess compliance with a new standard or policy. A firm could use internal inspections to assess compliance with the professional standards across the entire audit practice, or the firm could use internal inspections to focus in on audits that present an elevated risk. A firm's objectives for its internal inspection program may change from year to year, and the firm's objectives may influence whether it monitors a greater number of in-process audits or completed audits. All of these factors will make these metrics, including the deficiencies identified, highly variable and not appropriate for comparison.

Restatement History

We are supportive of providing restatement history at a firm level that reports the number of audit reports initially issued by the firm during a 12-month period that were subsequently determined to be an incorrect opinion on the financial statements and/or internal control over financial reporting.

The Proposal notes that "…restatements provide the cleanest empirical measure of audit failure." We do not believe it is appropriate to consider an audit a "failure" if the opinion was correct at the time it was issued. Investors received an accurate opinion on the financial statements or internal control assessment that was being presented. As such, we believe the restatement metric should only include those audits where the auditor withdrew, and amended, the opinion. We also note that this metric would be consistent with the categorization of deficiencies reported by the PCAOB in its inspection reports.

We do not agree that firms should report restatements identified by a successor auditor, unless the predecessor auditor revises the previously issued report. A successor auditor may have assessed materiality differently, or reached a different conclusion on a judgmental area, that resulted in a change to the issuer's financial statements. At the same time, the predecessor auditor may have fully complied with the professional standards in the original audit. It is not appropriate for the predecessor auditor to report a restatement that does not affect their originally issued opinion.

Reporting

We are supportive of providing certain firm-level metrics in Form FM. Subject to the comments noted above, we support providing the firm-level metrics in Form FM for partner and manager involvement, percentage of issuer audits that use auditor's specialists, experience of audit personnel, retention and tenure, and audits with an incorrect financial statement or internal control opinion. We believe this set of metrics are sufficiently objective as to allow for some comparisons and may help a user in better understanding a firm.

As discussed above, we believe engagement-level metrics should only be provided to the audit committee, in order to allow for robust discussion about the metrics by the group with responsibility for overseeing the auditor. We do not support reporting engagement-level metrics in Form AP or in an audit report.

We have concerns about the proposed timing for reporting Form FM. With the newly adopted quality control standard and this Proposal, firms will both be evaluating the quality control system and gathering, analyzing, and reporting the firm-level metrics during the same 60-day period. Smaller firms – without extensive National Office resources – will be at a disadvantage to thoroughly and thoughtfully complete these activities at the same time. In addition, we – and other firms – generally are undergoing our annual PCAOB inspection during this same timeframe. Historically, the PCAOB inspection has consumed a significant portion of National Office resources. We expect it will be very challenging going forward to support our annual inspection, evaluate the quality control system, and assemble data for reporting in Form FM at the same time. Since the quality control evaluation has been established in the newly adopted standard, we strongly recommend the PCAOB allow firms to select their own timing for Form FM so as to minimize the burden on small- and mid-sized firms.

We also strongly encourage the PCAOB to adopt a materiality threshold for Form FM. We will design and operate quality controls over collecting the data, determining the metrics, and reporting the metrics in Form FM. Those controls, however, would generally be designed to operate at a "reasonable assurance" level, consistent with the requirements of the quality control standards. If the PCAOB does not adopt a materiality threshold for Form FM, we may need to consider which controls need to operate at a level of absolute assurance, which will add significant effort and cost.

Economic Analysis

The economic analysis acknowledges that auditors may incur certain initial fixed costs related to building a system, and it captures the range of activities that would be involved in building a system to produce the proposed metrics. The economic analysis states, however, that the Board believes many firms track information related to the proposed metrics based on data they obtained from inspections of the largest six firms. The Board also states that they believe the larger firms' automated systems could be leveraged to comply with the new reporting requirements, and firms would only be required to implement a system if it was efficient to do so. We are concerned that the suggestion of a manual approach greatly understates the significant effort – and related cost – that would be involved in taking a manual approach. We are concerned that the economic analysis does not consider the opportunity costs that would result from directing limited technological and intellectual resources towards producing these metrics, instead of towards efforts to strengthen audit quality.

The economic analysis also acknowledges the ongoing costs related to producing the metrics, but does not address the effects of the newly adopted quality control standard. The Proposal states, "…the proposal does not impose new performance requirements other than the calculation and disclosure of metrics." While an accurate statement with respect to this proposed rule, it does not take into consideration the need for firms to develop, implement, and operate quality controls related to the calculation and disclosure of the metrics. We believe the PCAOB should consider these additional costs in the economic analysis, as they will be an incremental requirement directly related to the required reporting of firm- and engagement-level metrics.

We strongly encourage the PCAOB to conduct field testing of its proposed metrics before moving forward with the final standard in order to more fully understand the potential costs to the range of registered firms, and to clarify the expected benefits from reported metrics. It is not possible to reasonably estimate costs, or identify all potential challenges to preparing these metrics, during the limited comment period. Through field testing, however, firms will be in a better position to provide the PCAOB with estimates of costs, as well as challenges and potential unintended consequences, related to the proposed metrics.

Effective Date

We encourage the PCAOB to allow for at least two years for implementation of any new rule that requires reporting of firm or engagement metrics. As noted above, we will need to implement new systems in order to collect the data needed to determine certain metrics. Even for those metrics where new systems are not needed, we will need sufficient time to assemble the necessary data and design processes and controls to keep the data current. With two years, we will also be able to conduct a dry run of the metrics so we can validate that we have all necessary information.

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We appreciate the opportunity to share our perspectives on the Board's proposed amendments to its rules and reporting forms to require reporting of firm and engagement metrics. We would be pleased to discuss our comments with the Board or its staff. If you have any questions, please contact Jennifer Kary, Managing Partner Firm Quality at jennifer.kary@crowe.com.

Sincerely,

/s/ Crowe LLP

Crowe LLP