June 7, 2024

Ms. Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

PCAOB Release No. 2024-002, April 9, 2024: PCAOB Rulemaking Docket Matter No.041

Dear Secretary Brown and PCAOB Board Members:

Johnson Global Advisory is pleased to submit its comments on the proposed amendments to its rules and reporting forms to require the reporting of specified firm-level metrics on new Form FM, Firm Metrics and specified engagement-level metrics on an amended and renamed Form AP, Audit Participants and Metrics.

Johnson Global Advisory's mission is to be the most innovative and technically excellent advisory firm at the intersection of companies, auditors, and regulators, which improves investor decision-making confidence. We serve a diverse group of audit firms ranging from single office firms to more complex regional firms and the top 20 firms. We help firms interpret, respond, and comply with global auditing and financial reporting standards and regulatory requirements, including those standards set by the PCAOB. Our team of financial reporting quality advisors helps prepare firms to perform high-quality audits using innovative tools with a shared commitment to implement effective policies, procedures, and controls. We also provide firms with integrated software and service solutions to help them comply with audit quality standards.

Overall, we support the PCAOB's objective to improve audit quality, enhance investor protection, and further the public interest in preparing informative, accurate, and independent public audit reports. We appreciate the PCAOB continuing to explore the elements contributing to audit quality as set out in the initial Concept Release on Audit Quality Indicators in 2015, which formed the basis for this proposal. We are disappointed, however, that the focus of this proposal has moved away from audit quality in the initial concept release to now focus on "promoting informed decision-making through robust disclosure requirements" (page 6).

While the proposal reduced the number of metrics included in the Concept Release, we remain concerned that it is overly broad and prescriptive and does not clearly set out the problem it intends to solve. Most importantly, we share concerns raised by firms that a 60-day response period for this proposal is too short and additional time is needed to study the proposal and the impacts on the profession.

Undue financial burden for firms

The proposal states that approximately 210 firms would be subject to the proposed firm-level disclosure requirements, including 22 of the top 25 US firms by 2023 total revenue and 93% of the 2022 annually inspected firms. The estimated costs would amount to $68 million for the 210 firms. For the 202 smaller firms in the population, the proposal estimates the costs at $185,000. The proposal will be an expensive and far-reaching endeavor for firms. In light of the cost involved, further study and research is necessary before moving forward with requiring disclosure of firm and engagement level metrics in 11 areas.

Further education about audit and audit management

The Board proposes metrics in 11 areas to inform stakeholders of:

- Partner and manager involvement relative to junior staff (firm and engagement level)
- Partners, manager, and staff workload by reporting average weekly hours worked every quarter (firm and engagement level)
- Specialists and shared service centers used (firm and engagement level)
- Audit personnel experience at public accounting firms (firm and engagement level)
- Audit personnel industry experience (firm and engagement level)
- Retention and tenure of senior professionals (firm and engagement level)
- Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours (engagement level)
- Allocation of audit hours before and following an issuer's year-end (firm and engagement level)
- Relative changes in partner compensation between groups of partners based on internal quality performance ratings (firm level)
- Restatement history of the firm over the past five years (firm level)

The metrics proposed may provide information about the firm and its engagements. However, we are concerned that they are so detailed and complex to calculate that they will be of limited use without further context from audit firms and sets up smaller firms to inadvertently fall into costly sweep enforcement actions for any inaccuracies or inconsistencies in their reporting.

Furthermore, the metrics may create negative or unwanted incentives for auditors to keep up with "norms" that are implied when comparing the statistics between engagements and firms. This may result in auditors doing less work because of financial pressures impairing audit quality; similarly, it could result in auditors doing procedures that otherwise would be unnecessary and unwittingly increase audit costs for investors. Likewise, it can result in less competition and commoditize the audit as firms continually benchmark their metrics to achieve industry averages or attempt to beat the mark.

Instead, educating stakeholders about audit and audit management could better inform stakeholders and reduce the expectation gap between what an audit does and what it does not do. There is no one “right” approach; auditors use their professional judgment and expertise to make those decisions. Helping stakeholders understand that auditors carefully select a mix of audit procedures based on their experience to suit a specific audit area is more valuable than disclosing select data reported in a form on the PCAOB website.

We believe that the engagement level metrics should be eliminated from the proposal and serve as reporting guidance when reported voluntarily. This data could be shared with audit committees where they could engage in a dialogue with the auditors to obtain the context surrounding these metrics.

Further, requiring firms to disclose metrics heavily focused on hours worked could encourage stakeholders to focus on the investment of time rather than whether that work was effective. It could further exacerbate the notion that auditors should reduce their hours spent on an engagement. For smaller firms, the PCAOB could better serve stakeholders by further educating stakeholders instead of requiring firms to build systems, prepare reporting, review and evaluate the reporting, and respond to regulatory and other inquiries on the data.

Too heavy of a focus on hours and encourages limits on innovation

As noted above, the metrics overly focus on the "hours" reported, and it appears to reinforce the message that the extent and mix of hours are reasonable measures of audit performance. Historically, the audit profession has used this as a measure to plan and budget the effort involved in an audit engagement. A focus on hours negates the value auditors provide. For example, one partner may require ten hours to complete their review while other partners may take up to 20 hours. This demonstrates that the number of hours spent on the engagement does not represent a meaningful indication of audit quality because every partner may have a different skill set and experience. Simply said: more hours do not represent better quality as well as less hours should not be construed as poor quality.

To continue to focus on hours and embed this measure in regulations limits a firm’s ability to explore alternatives as to how they organize and plan the audit. This is vitally important as we are in an era of accelerated transformational change. By the time this data is reported, it will be dated and of limited use. We also note that many small firms do not currently have time reporting systems that would allow collection, analysis, and reporting of the proposed metrics.

Right-sizing regulations

The proposal focuses primarily on benefits for stakeholders. We remain unclear on the support the Board has presented as to the stakeholder needs and how these proposals meet those needs. These broad terms and preferences require further evidence. We support the focus on protecting investors; however, we also support "right-sizing" regulations to promote healthy audit firms. We suggest the PCAOB expand the proposal to consider the benefit to a firm and whether it outweighs the cost of collecting data to report comparable data with other firms. The PCAOB should premise the disclosures on how they help improve a firm's efforts toward audit quality. We fear this proposal would divert resources from investing in better audits to disclosures about the past or make it too expensive for many firms to stay in the marketplace for public company audits.

Disclosure of private information not under board oversight

The proposal also requires disclosing data outside the Board's oversight. The metrics require information about a firm's private practice that is not subject to the Board's oversight. How the Board has determined that this is appropriate and that the benefits outweigh the costs is unclear.

Compiling metrics proposed and comparison to other jurisdictions

We appreciate the Board's commentary throughout the proposal on the initiatives in other countries and the transparency reports issued by firms. Having consistent definitions for data that is already disclosed would be helpful for stakeholders. We encourage the Board to evaluate whether it is necessary to require the firms to present this information at all. The Board could solve the comparability issue by requiring firms that choose to disclose the data to present it as defined by the Board. We support the voluntary presentation of the information.

Recommendations

We encourage the Board to:

1. Provide firms additional time to study the proposal and the requirements.
2. Perform further research with smaller firms. Consider having firms do pilot studies of the proposed metrics to assess the implications before finalizing a proposal. The Board should also consider whether firms that audit 100 or fewer issuers should be exempted from this proposal or permitted to present the information voluntarily. We support exempting this group of firms from these metrics.
3. Reduce the number of metrics and simplify the requirements to avoid having firms parse through lots of data for limited benefit.
4. Compare the metrics with other jurisdictions and provide a list of the comparisons. Reduce any differences to the extent possible to reduce cost and increase comparability.
5. Consider what current PCAOB requirements could be eliminated by adding these requirements.
6. Re-consider the alternative to require disclosure of the metrics to audit committees. The proposal indicates (page 175) that this approach would limit audit committees' ability to compare the proposed metrics across firms and engagements. In selecting auditors, audit committees routinely request information from firms – this data could form part of the requested information. Firms could be required to present it in the format requested by the audit committees or this proposal.

Overall, we remain concerned about the unintended consequences of the proposal. As noted in the proposal, auditors may exit the market for accelerated and large accelerated filers due to increased competition and costs. Firms continue to share with us that they feel a heavy burden with the weight of the current regulations and have begun to re-focus away from the public company auditing work. Page 173 of the proposal indicates that PCAOB oversight of the firms' disclosure practices would prevent firms from manipulating the metrics. While true, this also adds more cost to the public auditing marketplace. We set out our comments on selected questions posed by the Board in the proposal in the attached Appendix.

We appreciate the opportunity to provide our comments and support the PCAOB's efforts to improve auditing standards to enhance audit quality and better protect investors. We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Jackson Johnson, President (jjohnson@jgacpa.com), Geoff Dingle, Managing Director and Shareholder (GDingle@jgacpa.com), or Santina Rocca, Managing Director (SRocca@jgacpa.com). They may be reached at (702) 848-7084.

Sincerely,

Johnson Global Advisory

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Appendix A

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?**

   More time and study is required to obtain input from various stakeholder groups on how they would use the metrics and whether that information would be useful to each of those groups. More time and study is also needed to evaluate whether these stakeholder groups are fully utilizing currently available information that is driven through current standards and rules, or voluntarily already reported by firms.

   We agree that providing standardized definitions of metrics would provide further comparability. For certain metrics, such as restatement history, the metric is straightforward. However, the standardization eliminates the potential for firm innovation and evolution in a time of accelerated transformational change. Standardizing the terms, moves further towards treating the audit as though it were a commodity than the result of a carefully curated set of procedures applied in the circumstances for an engagement.

   Over time, these metrics may encourage managing the metrics. Will staff be willing to report that amount of time spent on an engagement or other work when the consequence is reporting it to the public?

   There is a saying that “what you can measure you can manage”. In “Times Up”, Paul Dunn and Ronald Baker add that Peter Drucker said “….you will get what you measure, even to the detriment of your organization. This is because humans are scamps; they are experts at gaming any measurement system you deploy to control them”. (see page 248 of Times Up)

   We are also concerned that these metrics will add more publicly available data and create more confusion over the audit and what matters. Is it not more important that the public trusts that the auditor has performed sufficient and appropriate audit work? Steps that support the effectiveness of those procedures versus additional mandatory disclosure seem more appropriate.

   It would be helpful for the Board to consider the evolution of Critical Audit Matters – where an initial disclosure is viewed as interesting and over time becomes standard/boilerplate type language. Consider the cost invested in evaluating the benefits of this proposal.

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

   The metrics appear to have a focus on the larger firms given the complexity/precision of the metrics proposed. They continue to be focused on the past – in other words, they are lagging indicators at best versus leading indicators.

   References to “national office” presume a large firm and not all firms have national offices even if they have a national practice. We recommend that, if the terms is used or no other broader term is identified, that this term be defined to include small firm scenarios including the use of accounting, auditing and ethics consultants or audit quality consultants and experts.

Comparability

3. **Are there other considerations we should be aware of that would increase or decrease comparability at the firm level? For example, would it be helpful to have subsets of information**
   available by size of the firm or by size of the issuers the firm audits?

   Firm size, issuer size, (extent of accelerated, large issues) and issuer industry amongst other factors would set the stage for describing a firm and allow for better context for the data. However, this benefit would need to be weighed with the cost of requiring this data.

4. **Are there other considerations we should be aware of that would increase or decrease comparability of the engagement-level metrics? For example, would it be helpful to capture information at the engagement level by industry sector, region, whether it is a first-year audit, or other criteria?**

   All of these factors listed have an impact on the extent of work performed by a firm. The effort and when it is invested (for example, what extent of work is performed near the audit opinion date as compared to other times during execution) is an important factor that we believe affects the quality of the audit work performed.

Rounding and Use of Estimates

5. **Is it appropriate for firms to report metrics by rounding to the nearest whole number except in cases where additional decimal places (no more than two) are needed to properly interpret the result or enable comparison to prior periods? If not, what would an appropriate level of precision be?**

Rounding is appropriate. We believe, however, that this level of precision required appears overly costly and burdensome and support reasonable estimates be used. A concept of materiality should be applied.

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

   Reasonable estimates should be permitted.

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?**

   We support firms having the option to provide narrative disclosure to provide context. Audits are not standardized, and context is important.

8. **Should we place limits on the length or content of the narrative disclosure? If so, what should they be? Is a 500-character limit per metric appropriate? Should it be less or more? Should there be no limit?**

   We do not support limiting length unless required by technology. This restricts firms from freely sharing information they view as important.

Key Terms and Concepts

9. **Are the definitions for partners, managers, and staff clear and appropriate? If not, how should they be changed?**

   These seem appropriate and linking them to the existing definitions will help in preventing multiple definitions throughout the standards. However, titles and roles are not consistent across firms. In addition, this continues to emphasize the existing or traditional model for engagements without allow for future changes or evolutions that will continue to take place as AI and other tools impact the audit.

   We expect that "contractors" employed by firms would be included in the definitions as presented. It would be helpful to clarify that the definitions are meant to be descriptions of the roles rather than legal interpretations of the roles.

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?**

    We believe that the data should be limited to those involved in the audit engagement regardless of which business unit the firm allocates the staff.

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?**

    We recommend making this optional for firms. The metrics should be simple and not require firms to parse through the minutia of hours for engagements. For smaller firms, this would likely add cost without providing any discernable benefits. Adding more thresholds should only be considered if they allow for simpler aggregation/preparation of the data.

12. **Should other individuals involved in the audit (e.g., individuals in the firm's national office, engagement quality reviewers, employees of shared service centers, or individuals involved in loaned staff arrangements and alternative practice structures) be treated differently in the metrics? If so, how should they be considered in the definition of core engagement team?**

    Individuals in the audit should include all the individuals that contributed or participated in the engagement regardless of the legal structure. This would avoid firms having to evaluate who to include and exclude – to the extent an individual's cost was included within the audit, that should be included. We would exclude only the quality functions such as the engagement quality reviewer to avoid any impression that they are part of the engagement team.

13. **Should engagement quality reviewers be added to any of the proposed metrics? If so, which metrics and should they be added as a separate category or together with a group, such as the engagement team?**

    Engagement quality reviewers should also be included in the metrics but separately from the rest of the data provided to ensure that there is no impression that this group is not independent.

14. **Is the proposed definition of core engagement team appropriate? Are the proposed thresholds for core engagement team members appropriate?**

    a. **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?**
    b. **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?**
    c. **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 proposal states that "core engagement team" is defined to "limit the concept of the engagement partner and personnel of the firm issuing the audit report who meet a minimum hours threshold and to filter out individuals whose participation in the engagement was limited or marginal." It is not clear on what basis this is proposed or determined and appears arbitrary. It further appears to suggest that certain work in the engagement is either not important (like an inventory observation) or that is optional. We recommend further study of this.

    In our view, if this data were provided, it should be complete as to what is spent on the engagement without minimums or exclusions. In our view, for smaller firms, adding exclusions or minimums increases complexity and requires further tracking to determine what to include/exclude. Aggregating data from an audit that is complete would reduce cost and complexity.

    We believe the data for the other locations, as provided in the Form AP today, along with the above should suffice to inform stakeholders of who was involved in the audit and what was their extent of involvement.

15. **Is the proposed term hours worked clear and appropriate? If not, how should it be changed?**

    The term hours worked is clear. We express the following concerns about the appropriateness of the term:

- Overall, the metrics are based on "hours" worked by firms. This perpetuates the view that "hours worked" is a measure of effort and an indicator of quality. In addition, the metric is not a measure of effectiveness. We remain concerned that the Board is focused on the past and communicating existing or past practices. We believe it would be more appropriate to determine the optimal factors needed to perform a quality audit. A consistent reference to "hours worked" could limit future innovation, not consider the effect of new tools such as AI and not provide a vehicle for firms to consider other options. For example, where AI or a robot is used in place of work performed by staff, how would that be reported within these metrics? Would it be excluded, or would a new term need to be defined?

- The Board requires firms to disclose all hours worked (except for holidays and paid time off) including for issuer and non-issuer work to provide a complete picture of the responsibilities and work demands on the engagement team. The Board, however, does not explain the basis on which it can require firms to disclose data about elements of its practice such as non-issuer data that the Board does not oversee. For smaller firms, the public practice is often a smaller element of their workload. This metric does not consider disclosure of private, competitive information for the firms. We believe that this needs further analysis and discussion.

- In addition, while workload is a helpful metric for firms to use internally to identify and assess whether any individual is overloaded and that fact may affect the quality of their audit work, it does not seem that clear that the cost benefit of providing this metric to the public on an ongoing basis is considered or supported.

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?

We believe it is appropriate to use the Form AP total audit hours in the metrics. The more consistent the data is with other data provided to the Board, the less cost involved in determining the components.

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?

We believe it is appropriate to focus on total audit hours for all issuer engagements and not limit the metric to sizes of engagements. This would provide an overall picture of the firm's practice and importantly keep the metric more cost-effective without having to segregate, track and analyze various components.

Partner and Manager Involvement

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

The proposed descriptions and calculations are clear. The Board indicates that this proposed metric could provide users with information regarding a firm's oversight of their engagements and supervision of the less experienced team members. We agree that a firm's oversight of an engagement is a critical element of audit quality. We believe, however, that aggregating partner and manager time will add an additional level of complexity to the reporting and increase the cost. We recommend further study to determine whether providing the data for the partner and manager group separately would be less costly to prepare.

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

As noted above, we recommend further study to determine whether providing separate calculations would facilitate reporting and reduce the costs.

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?

Since the engagement partner is the person signing the opinion and their name is disclosed, it would appear to be more consistent to separate this data. Having said, we believe further study is needed to evaluate the cost of providing this individual metric.

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?

It is not clear how the staff leverage ratio would be calculated. We suggest explaining further the Board's definition here and how to compares to what is being proposed.

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?

It is not clear in the example provided why the engagement partners are included in item (i) of the example and excluded from (ii).

We recommend that further explanation be provided as to the difference between (i) and (ii) and whether the second metric would be more useful and easier to calculate if it were to include all the partners.

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

It is not clear what the basis is for disclosing both and we would suggest that one would suffice. We are concerned the second data point excluding engagement partners would create confusion. It is nuanced and would also require additional effort from a firm to provide.

Workload example, page 44

Firm-level calculations:

(i) Average weekly hours worked by the firm's engagement partners:

$$\frac{\text{Average number of hours worked by \textit{engagement partners} in the calendar quarter}}{\text{Number of weeks in the calendar quarter}}$$

(ii) Average weekly hours worked by the firm's partners (excluding engagement partners), managers, and staff:

$$\frac{\text{Average number of hours worked by \textit{partners} (excluding \textit{engagement partners}), \textit{managers}, and \textit{staff} of the firm in the calendar quarter}}{\text{Number of weeks in the calendar quarter}}$$

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

24. Are the proposed descriptions of the firm-level and engagement-level metrics for use of (i) auditor's specialists and (ii) shared service centers clear and appropriate? If not, why not?

This question implies that the engagement team members in shared service centers are different from other members of the engagement team. Where audit work is prepared (e.g. locally or in a shared service center) isn't meaningful.

We believe that this group of metrics is overly complex and would be costly for firms to prepare and accumulate, especially for the smaller engagements. We question here the cost benefit of these metrics.

Firms are already required to communicate their use of specialists to audit committees on an engagement under existing standards. Audit committees serve as the oversight of the audit and any additional information should be requested by and provided to the audit committee. It is not clear what additional benefit would be gained by adding these complex calculations and narratives to the requirements.

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

    See comment above.

26. **With respect to the firm-level metrics for the use of (i) auditor's specialists and (ii) shared service centers:**
    a. **The metrics calculate the percentage of issuer engagements on which (i) auditor's specialists and (ii) shared service centers were used. Alternatively, should these metrics calculate the average percentage of usage of (i) auditor's specialists and (ii) shared service centers across all of the firm's engagements?**
    b. **The metrics for use of auditor's specialists and shared service centers at the firm-level calculate the percentage of issuer engagements in which specialists or shared services centers, respectively, were used, no matter how minor their involvement may have been. Should the metric capture only engagements in which an auditor's specialist or shared services center was used for a minimum number of engagement hours, such as 2% or 5%? If yes, what should the threshold be?**
    c. **We have proposed that the firm-level use of (i) auditor's specialists and (ii) shared service centers metrics be provided in aggregate across all of the firm's issuer engagements. Alternatively, would it be beneficial to provide either of these metrics by industry for those industries included in a firm's industry experience metrics? Why or why not?**

    See comment above.

27. **With respect to the proposed metrics related to shared service centers:**

    a. **The description of what is a shared services center is consistent with the description in the Form AP guidance. Should the description be more broad to include other arrangements such as (1) those that are captive to an individual firm, where the staff are employees of the firm, (2) service centers that have a separate legal entity but dedicated solely to the support of an individual firm, (3) service centers that are external to a firm but provide similar services to several affiliated or non-affiliated firms, (4) service centers that are located in the same jurisdiction**

as a firm, or (5) solely those that are located in another jurisdiction? Why or why not?

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

See above.

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?**

We believe the Board should also consider other relevant experience that enhances audit work effectiveness. For example, time served at regulators (for example, SEC, PCAOB etc) or standard-setters (for example, FASB) or at issuers. We encourage considering including the diversity of experiences included in the profession that help expand the questions auditors ask and deepen the quality of the audit work. However, the metrics appear clear.

Industry Experience of Audit Personnel

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

The proposal selects the three years of experience for managers and five years for partners but does not explain the basis for the selection. In our view, these calculations are overly complex and if retained, we would suggest simplifying them to include industry experience at the firm level and perhaps in bands. Furthermore, we note that numbers of years do not always reflect individual's experience and skills-set. For example, a manager with two years-experience may be more effective than another manager with three or more years of experience. Five years for partner does not represent any meaningful indicator of effectiveness of partner's work. For example, say one partner requires ten hours to complete a review while other partners take 20 hours to do the same review. This demonstrates that neither number of years of experience or number of hours spent on the engagement represent a meaningful indication of audit quality. Simply said: more hours do not represent better quality as well as less hours should not be construed as poor quality.

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

    The proposal does not state the basis for determining that 250 hours or 25% of an auditor's time focused on a particular industry represents qualifying experience. Without research to support the basis, it is not possible to recommend how much industry experience would be necessary to work on an audit engagement. We recommend further study in this area in conjunction with firms.

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

    The proposed industry reference seems appropriate. We encourage, however, further study to assess what questions may arise in trying to group experience.

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 suggest making this a voluntary disclosure and allowing firms to choose the number of industries to present. This would permit firms to present data that is relevant at the time. The 10 percent metric appears low.

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

    This metric would be more practical and clearer for stakeholders. This would allow for only the most important elements to be presented and we support a focus on the top five.

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?**

    It will be complex to select and focus on the primary industry. To go to further industries would overly complicate the data collection, data analysis and presentation.

Retention and Tenure

36. **Are the descriptions and the calculations of the proposed (i) retention rate and (ii) headcount change at the firm level and engagement level clear and appropriate? If not, why not?**

    This information provides further insight to changes in a firm and certainly turnover at various levels can have an impact on audit quality. In addition, as technology advances, the composition and number of staff needed to perform work will change. The proposal also needs to consider the benefits and costs at the firm level especially for smaller firms who will need additional resources to compile this information.

    As noted above for other metrics, we remain concerned about the precision of the data firms need to collect, process and disclose. The cost of this versus the benefit is not clear from the proposal and needs further study.

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?**

    As above

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?**

    As above

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?**

    As above

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

As above

Audit Hours and Risk Areas

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

This type of data would be onerous for firms, in particular, smaller firms to calculate. We are not aware of time being accumulated to this level of precisions. We do not support this as it suggests "a certain level of hours" is appropriate and does not give recognition to the fact that all components of an audit are integrated and interrelated. Hence, even allocations are difficult to estimate.

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?**

As noted above many small firms do not have time reporting systems to capture such details.

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

As above

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?**

As above. Adding the specialists would further complicate this calculation. We do not support including this data.

Allocation of Audit Hours

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

The timeline of audit work is important element of successful and effective audits. Moving more work forward helps auditors to have more time to focus on the challenging areas of the audit with less time pressure. While well-intentioned, this metric seems somewhat arbitrary and may provide misleading information for those smaller engagements where a higher proportion of the work is performed post-year-end.

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?

We do not support a more granular metric as it would be costly to assemble the information to report. Such additional time spent on data reporting diverts very important time during the audit and creates an unnecessary dilemma for engagement teams as to whether it is more important to comply with audit quality standards or reporting requirement rules. In the event of time constraints, teams would be expected to focus on audit quality rather than time reporting that again sets up the smaller firms to enforcement sweep actions due to inaccurate or inconsistent time reporting to the PCAOB.

We continue to believe that providing this level of information to the audit committee is a more cost-effective approach and a tool that the audit committee can use to evaluate the effectiveness of the auditors. The format and details of such information should be agreed upon between the audit committee and the firm.

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?

We are more supportive of disclosing the policy than requiring the metrics to be presented. We express concern that the focus of these metrics is punitive. We believe there is value in rewarding good quality. Much goes into performance measurement and the indicators of what contributes to effective work. Some of those elements go beyond the mechanical accumulation and measurement of hours. Auditors with good project management skills are likely to outperform others. We believe further research is needed before requiring this type of personnel information to be disclosed.

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?

We believe this disclosure needs further study to understand the impact on firm's potential liability and whether stakeholders will understand this information. If it were to be provided, we believe for simplicity to keep costs lower to disclose only the percentage that had an engagement deficiency.

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 believe this requires further research. We are concerned as whether investors would understand this level of detail. Also, we are concerned that this turns preventative, learning tools used by firms into public shaming with the potential for further liability. Disclosing these deficiencies at this level encourages engagement teams to view that internal inspections process in a defensive way rather than viewing the process as a learning opportunity or continuous improvement. It doesn't encourage embracing inspections as a valuable learning process. We do not support this proposed requirement.

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?**

    As noted above, we believe this is excessive detail. For one to appropriately understand this, they would also need to know how it was remediated. Also, this could create confusion as to whether the current engagement is deficient. We note that PCAOB already has ability to request such information during the remediation evaluation process.

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?

As above

Restatement History

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

We believe that this information is already publicly available, and it does not appear necessary to require firms to report this. If it were reported, we believe that a streamlined metric that merely reported on the total for the year.

Thresholds for Required Reporting

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

See below

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

We recommend voluntary disclosures rather than requiring firms to prepare and disclose metrics that will be costly to prepare, review and report.

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

As above

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 encourage the Board to streamline the different reporting dates. The period proposed appears consistent with the QC 1000 timing so that is helpful, however it is different from Form 2 deadline.

68. Rather than reporting on Form FM, should firms report firm-level metrics, as of March 31 on Form 2, which is due on June 30? If so, why?

Reporting on Form 2 could simplify the reporting for firms and consolidate the information.

Reporting of Engagement-Level Metrics

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

We continue to believe that providing this level of information to the audit committee is a more cost-effective approach and a tool that the audit committee can use to evaluate the effectiveness of the auditors. Format and details of such information should be agreed upon between the audit committee and the firm. Providing the metrics to audit committees would be preferable to reporting this data to the PCAOB.

However, mandatory reporting may also imply that the audit committee considered such information in executing its duties which it may not.

Audit engagement teams should discuss with audit committees what information the audit committee needs to execute the audit committee responsibilities. The time the auditor gets to spend with the audit committee is very limited and should be used for high value communications.

The audit committee oversees the audit and represents investors – they are best placed to consume, understand and dialogue with the audit firm about the metrics.

Inclusion of Metrics in the Audit Report

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

We believe that this would take away the usefulness and focus of the audit report. We believe the metrics proposed in this release, if retained, would be best presented to the audit committee where a healthy dialogue with auditors could take place.

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

We do not believe that most (if any) of the metrics proposed in this release would be available at the time an audit report is issued. Also, it would create unnecessary time crunch at the final stage of audit when time reporting should be least concern for the engagement team whom investors would expect to focus on audit quality rather than bureaucracy.

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)?

We do not support the 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 previously stated, we believe that requiring including of this information in the auditors report will divert the auditors attention away from the audit and their focus on significant risks associated with the entity being audited.

Potential Additional Firm and Engagement Metrics

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

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

We agree with the proposal to not include this information. Training is important for development and building awareness. However, on the job training is invaluable and it would be difficult to present holistic information that could capture training, learning and development; it is not practicable to estimate hours for on the job training which is likely the largest investment that the audit firms put in their professionals but do not quantify.

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

We agree with the view presented in the proposal that there would be unintended consequences to disclosure of this metric. We support the view that access to technical resources is vital – it is best for someone with a question to ask rather than be fearful to ask.

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

We agree that this would be difficult to measure and to report. The data once determined would be a lagging indicator so would not be helpful to the market.

Need

92. Have we appropriately described a problem and how the proposal would address the problem? If not, how can we improve the analysis?

The proposal does not adequately describe the problem being solved.

Benefits

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

We do not see any discussion of benefits to auditors or to audit quality. The benefit appears focused on market evaluation of auditors. That same information could be provided to audit committees serving the same purpose as and when it is needed without any new regulations. PCAOB could issue a guidance for the audit committees educating them about these metrics.