June 10, 2024

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803
comments@pcaobus.org

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

To the Office of the Secretary:

CPA Club Inc. ("CPAClub") is writing to share our perspectives on proposed PCAOB Rule 2203C, *Firm Metrics;* new Form FM*, Firm Metrics* and revisions and a new name*, Audit Participants and Metrics* for Form AP*,* and amendments to Rule 3211*, Audit Participants and Metrics*.

Founded and led by one of **Accounting Today's Top 100 Most Influential People in Accounting** and one of **CPA Practice Advisor's 20 Under 40 Top Influencers**, CPAClub was recognized as a **Top New Product by Accounting Today**. We are on a mission to make the CPA world better, including transforming how public accounting firms deliver audit and assurance services. We are a licensed accountancy corporation based in the United States and are also registered with the PCAOB. Through our unique membership model, CPAClub provides subscription access to on-demand AICPA and PCAOB audit and assurance professionals who deliver solutions to CPA firms and companies throughout the United States and abroad. Our solutions include support for audit and assurance, quality management, regulatory matters, training, and transformation.

Overall Support for Audit Firm and Engagement-Level Metrics

CPAClub supports the PCAOB's initiative to enhance audit firm and engagement-level metrics. We believe that the proposal would advance investor protection and promote the public interest by enabling stakeholders to make better-informed decisions, promoting auditor accountability, and ultimately enhancing capital allocation and confidence in our capital markets. However, we recognize that the proposed rules and amendments addressing firm and engagement-level metrics have been a long time in the making.

Our leadership has been closely monitoring the Board's progress and development of these metrics since 2008, when comments were originally submitted to the U.S. Department of Treasury's Advisory Committee on the Auditing Profession with recommendations on how to improve audit quality. Additionally, Chris Vanover, president and founder of CPAClub and former PCAOB director, played a significant role in drafting the briefing paper on audit quality indicators

(AQIs) presented to the Standing Advisory Committee in 2013, which served as the foundation of the PCAOB Concept Release in 2015. Given the increasing audit deficiencies and disciplinary actions within the profession over the past 16 years, we believe that accelerated action and implementation of these initiatives is crucial to advancing audit quality and protecting investor interests.

Increased Transparency

Investors and audit committees cannot easily observe the services performed by auditors. This can limit investors' ability to make informed decisions about investing their capital, ratifying the selection of auditors, and voting for members of the board of directors, including directors who serve on the audit committee, and audit committees' ability to choose among and monitor the performance of auditors. We believe that the proposed 11 metrics are a significant stride toward improving transparency into the internal operations of audit firms and specific engagements. Key stakeholders, especially buyers of audit services, will gain better insights and be able to compare and benchmark metrics with other audit firms to make better-informed decisions regarding the quality of their selected audit firms. This will further promote trust and confidence as stakeholders can now analyze concrete data on how audits are conducted, and the resources dedicated to them.

As noted in our comment letter dated April 11, 2024, regarding Proposed Rule 2400, *False or Misleading Statements Concerning PCAOB Registration and Oversight,* there is a pervasive lack of awareness amongst the public regarding the validity and consistency of statements and, in some instances, "audit quality" metrics communicated by firms. By standardizing the metrics and definitions and requiring annual reporting to the public, there will be increased transparency for key stakeholders and the public overall. As recommended in our previous comment letter to proposed Rule 2400, to further increase transparency and accountability, we advocate that the Board include in this proposal the following as it relates to Firm Metrics:

- A registered public accounting firm must prominently include on its website and/or its equivalents a direct link to its annual Firm and Engagement-Level Metrics.
- Including an additional required communication of Firm and Engagement-Level Metrics to Audit Committees under AS 1301.

We recognize that the current landscape of audit services often treats audits as a commodity, which diminishes the incentive for firms to compete on quality. This lack of incentive results in a scarcity of accurate, standardized, and decision-relevant information about firms and the engagements they perform. By mandating prominent disclosures of Firm Metrics, we can shift this paradigm, encouraging firms to differentiate themselves based on the quality of their audits. Additionally, the consideration of incorporating an "audit" of such metrics as part of the inspection process would further motivate firms to provide precise and relevant information, fostering a competitive environment where audit quality becomes a significant factor in firm selection and retention.

Metrics That Matter

We believe that the proposed annual reporting of such metrics will result in improved audit quality across the profession. One of the core tenets of CPAClub is quality, and we support several CPA firms across the United States with quality management through engagement quality control reviews, pre-issuance reviews, post-issuance inspections, evaluation and monitoring of quality controls and procedures, PCAOB inspection remediation support, etc. This involvement keeps us closely attuned to the audit quality issues impacting the profession as a whole. Broadly speaking, we have observed common themes that we believe are the primary drivers of declining audit quality in our field, such as excessive workload and insufficient review and supervision of staff by partners and managers. The two proposed metrics on Workload and Partner and Manager Involvement will provide stakeholders with crucial insights into the number of hours worked by all levels at the firm and the extent of involvement by senior members at the engagement level. Chris Vanover, in his article "Brace for impact: What auditors can learn from airlines," published by *Accounting Today* in March 2024, discusses the negative impact of increased workload on the audit profession, drawing comparisons to how other industries, like the airline industry, address similar challenges. Vanover states:

> *"In the airline industry, safety is paramount. Regulations and protocols are in place to ensure that every aspect of air travel is meticulously monitored and regulated to safeguard passengers and crew. Crew fatigue, recognized as a significant risk factor, is taken seriously, with mandated rest periods and stringent guidelines aimed at preventing fatigue-related incidents…In our profession, we encounter common challenges such as compressed deadlines, staff turnover, client unresponsiveness, new accounting rules and auditing standards, surprise transactions and more, often unfolding during our busiest seasons. These challenges significantly disrupt the planned course of the audit. With each passing billable hour, the path to the deadline becomes increasingly difficult to navigate. Despite mounting pressure, engagement leaders often push teams to meet deadlines, prioritizing completion over quality. These challenges contribute to excessive workloads, leading to auditor fatigue."*

As part of our commitment to improving the CPA profession, we have actively written articles like the one above and shared insights on social media platforms, emphasizing the importance of these metrics. While enforcement actions and inspection reports provide valuable data, their extended delays often diminish their relevance for key stakeholders. Consequently, audit buyers and committees may inadvertently engage firms with significant quality deficiencies and pending enforcement actions for prolonged periods.

While we commend the Board for proposing timely (annual) reporting of Firm Metrics, we urge them to extend these requirements immediately to all PCAOB-registered firms, rather than solely targeting 'accelerated filers' or 'large accelerated filers.' Recent events underscore a critical concern—smaller PCAOB-registered firms undergo scrutiny, yet crucial findings often remain concealed until it's too late. Despite inspections, these firms operate with inadequate oversight, conducting numerous low-quality audits for SEC registrants while evading detection. The delayed release of inspection reports or disciplinary orders keeps vital information hidden from audit service buyers until it's too late. Therefore, it's imperative to expand reporting firm metrics to encompass all firms, ensuring comprehensive oversight and mitigating potential risks before they escalate.

Other Recommendations and Feedback

As mentioned earlier, recent PCAOB inspection findings have revealed a concerning trend—namely, a toxic culture of overwork and a clear lack of partner and manager involvement in audits, which has been identified as a significant factor contributing to declining audit quality in recent years. Additionally, many recent Part II Quality Control Criticisms in PCAOB inspection reports revolve around the involvement and role of the Engagement Quality Reviewer (EQR) as per AS 1220. Consequently, we suggest the Board consider incorporating a proposed metric regarding the role of the EQR. Potential metrics to consider include evaluating EQR involvement, number of EQR assignments, industry experience, and/or firm affiliation (especially if affiliated with a third party).

Lastly, we want to highlight the potential shortfalls of the use of hours as a key metric. At CPAClub, the business model does not include the use of hours to budget and bill clients, track firm profitability, or assess employee productivity. We utilize a unique subscription-based access model that focuses on the outputs or value-added to customers, rather than the inputs (hours) to provide such solutions to customers. Similarly, the use of hours metrics as part of the proposal focuses on the inputs, which, without proper context, could just represent meaningless statistics. Thus, we encourage the Board to consider certain outputs or outcomes as part of required Firm Metrics. Metrics such as restatements, employee retention, employee experience, client satisfaction ratings, internal quality monitoring results, quality performance ratings, etc. are all examples of outputs that could be meaningful for a key stakeholder, buyers of audits, and audit committees in the appointment or retention of their auditor. If such metrics were reported as favorable, particularly in employee retention or employee experience, this would likely be more indicative of a firm culture that is ideal for contributing to higher audit quality.

We thank the PCAOB for the opportunity to comment and would be pleased to discuss with you further if needed. CPAClub looks forward to seeing the PCAOB's continued efforts to strengthen audit quality and protect investor interests.

Sincerely,

CPA Club Inc.

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