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Via email to comments@pcaobus.org

Office of the Secretary, PCAOB
1666 K Street, NW
Washington D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 41 Firm and Engagement Metrics

Dear Secretary Brown and Members of the PCAOB:

I appreciate the opportunity to provide feedback to the Board regarding the proposals regarding Firm and Engagement Metrics. I am an accounting professor at Case Western Reserve University. I teach auditing and conduct research in the areas of auditor judgment and decision making and audit regulation.

Overall, I am not enthusiastic about the Board's proposal. The PCAOB's mission is "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports."[1] The Board's main duties include registration of accounting firms, standard-setting, inspections, and investigations and disciplinary proceedings. Although the PCAOB is also authorized to "perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to . . . improve the quality of audit services,"[2] I do not believe that the proposal provides sufficient evidence that public disclosure of the proposed metrics will have any meaningful impact on the quality of audit services.

I am also concerned that some of the proposed metrics will impose excessive administrative burdens on firms and engagement teams while others are ambiguous with respect to audit quality. The unintended consequences from this proposal could include exit of smaller firms from the market, reallocation of firm and engagement team effort away from audit quality enhancing activities, and confusion among investors with regard to interpretation of the some of the metrics. The Board should eliminate some of the proposed metrics before issuing a final rule.

[1] See Section 101 of the Sarbanes-Oxley Act of 2002.
[2] See Section 101 of the Sarbanes-Oxley Act of 2002.

In evaluating the individual metrics for inclusion in the final rule, the PCAOB should consider the following:

- Is the metric unambiguous with respect to audit quality? In other words, would everyone agree that a change in one direction reflects an improvement in audit quality while a change in the opposite direction reflects a decline in audit quality?
- Can the metric be appropriately interpreted on its own, without additional context?
- If disclosure of the metric results in behavior change, will the resulting behavior change improve audit quality or, at least, not adversely impact audit quality.
- Will the metric require firms to develop systems, processes, and procedures that they do not already have? What will be the differential impact on smaller firms?
- Will the metric impose ongoing administrative burdens (e.g., record-keeping and data compilation) on engagement teams that will result in a reallocation of effort away from audit quality enhancing activities (e.g., thorough risk assessment procedures, diligent performance of audit procedures, thorough evaluation of audit results).

Thank you for the opportunity to comment on the proposed standard. If you have any questions, please contact me at 216-368-8895.

Sincerely,

John Keyser

John D. Keyser, PhD, CPA
Assistant Professor
Enclosure

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?***

   Some of the proposed firm-level metrics (e.g., partner and manager involvement; workload; quality performance ratings and compensation) may provide useful information to audit committees as they make auditor selection and retention decisions. However, I doubt that the following proposed metrics, presented at the firm-level, will be useful.

   - AS 1210 defines a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing."[3] The auditor decides whether to use the work of a specialist based on the audit engagement specific facts and circumstances. Accounting firms vary in terms of the types of clients they serve and in the extent to which the audit of those clients require the work of specialists. Therefore, I do not believe the percentage of issuer engagements that used specialists is a meaningful statistic at the firm-level. It may be useful as an input measure of audit quality at the engagement-level, but only with sufficient context to understand the need for non-accounting expertise for a particular account or class of transactions.
   - I am not sure how one might interpret the proposed "allocation of audit hours" metric, which is defined as "the percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement."[4] According to AS 2301, the auditor should alter the timing of audit procedures in response to the assessed risks of material misstatement.[5] Thus, I would expect engagement teams to perform more interim work on less risky clients and spend more time after the client's year-end on clients and accounts for which the risk of material misstatement is higher. So while the engagement-level metric tells me something about how the firm assessed the overall risk of material misstatement for that engagement, I do not believe this metric is meaningful at the firm-level. If the Board decides to retain this firm-level metric, it should explain how it could be interpreted as a measure of audit quality.

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?***

   Whereas larger firms tend to employ internal specialists, smaller firms do not.[6] Thus, larger firms likely capture specialist hours in the same system used to capture auditor hours. The proposal requires firms who engage specialists to estimate the specialist's hours by dividing the

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[3] See paragraph .01 of AS 1210 available at: https://pcaobus.org/oversight/standards/auditing-standards/details/AS1210.

[4] See page 25 of the proposal.

[5] See, for example, paragraph .06 of AS 2301 available at https://pcaobus.org/oversight/standards/auditing-standards/details/AS2301.

[6] According to the PCAOB's final rule on the use of specialists, "smaller audit firms are more likely to use the work of a company's specialist than to employ or engage their own specialist. Larger audit firms generally require their engagement teams to evaluate the work of the company's specialist . . . and often employ specialists to assist their audit personnel in evaluating that work." See page 14 of PAOB Release no. 2018-006, available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket044/2018-006-specialists-final-rule.pdf?sfvrsn=322a6948_0.

specialist's fee by an estimated hourly rate. This requirement will require significant effort for firms who engage specialists. The cost of this effort will far exceed any benefit from reporting the resulting firm-level and engagement-level metrics.

3. ***Are there any 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?***

   The PCOAB should focus on identifying a small number of metrics that will be the most useful to audit committees in selecting and retaining external auditors. If there are too many metrics, investors will experience information overload. Also, since audit committees can request additional information from prospective audit firms, I do not think the PCAOB should expand the set of required metrics beyond what has already been proposed.

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?***

   I think the PCAOB should only require a few metrics that can be expected to be useful to everyone. See my response to Question 3.

   The size of engagement teams tends to vary with client size. As a result, the engagement-level retention rate for smaller engagement teams will be much more sensitive to any turnover relative to the retention rate for larger engagement teams.

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?***

   Yes. Firms should be able to round to the nearest whole number. The PCAOB should not restrict the number of decimal places. It is reasonable to expect that investors, audit committees, and other interested parties can compare metrics that are presented with slightly different decimal places.

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?***

   Yes. Some of the proposed metrics may require estimation and that should be acceptable. The PCAOB should not require excessive levels of precision in the reporting of these metrics.

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?***

   Yes. Firms should be permitted to provide narrative disclosure for all metrics.

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?***

   There should be no limits on the length of content of the narrative disclosure. Alternatively, the Board should permit firms to include a hyperlink where readers can find additional relevant information regarding the metric on the firm's website.

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

   Yes.

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?***

    Yes. The firm-level metrics should include only professionals assigned to the firm's audit practice because the work of tax professionals and consultants will not improve the usefulness of these metrics for the purposes outlined in the release.

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?***

    No. Adding a threshold would increase the complexity and cost of calculating the metrics without a corresponding benefit.

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?***

    I am extremely skeptical that the benefits of providing these metrics at the engagement-level will exceed the costs that will be incurred to generate them. In order to minimize the cost, the definition should simply include any person who charged time to the engagement.

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?***

    Firms generally do not assign partners to solely perform engagement quality reviews. Instead, audit partners serve as engagement partners for some audits and engagement quality reviewers for others. Thus, it does not make sense to exclude engagement quality reviewers from the firm-level metrics. The firm-level metrics should include all audit partners with no requirement to try to allocate their time between that spent as engagement partners and as engagement quality reviewers.

    For engagement-level metrics, I agree with the Board's proposal to exclude engagement quality reviews.

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

    The proposed definition of core engagement team could be read to exclude the engagement partner. In order to clarify the definition, the following edits should be made:

    a. Partners or employees of the registered public accounting firm issuing the audit report (or individual who work under that firm's direction and control and function as the firm's employes); and

    b. ~~Either~~ *Any* of the following:

       (1) The engagement partner.

(2) A partner (~~excluding~~ *other than* the engagement partner) who worked ten or more hours on the engagement; or

(3) Manager or staff who worked on the engagement for 40 or more hours or, if less, 2% or more of the total audit hours.

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?

The proposed hour threshold for partners is fine.

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?

The proposed hour threshold for managers and staff is fine.

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?

I do not think the definition of core engagement team should include component auditors because the cost of accumulating the information would greatly exceed the benefit. The core engagement team should include only partners and employees of the lead audit firm.

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

Yes. I agree that "hours worked" should include all hours worked including time spent on audits and time spent on activities other than audits. I also agree that "hours worked" should include hours spent on auditing non-issuer engagements.

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?

As discussed in the response to Question 2, the inconsistent approach to the hours of specialists makes the metric less comparable across firms. It would be preferable to exclude specialist hours from the definition of total audit hours so that the metrics are comparable across firms, whether those firms employ or engage specialists.

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?

It makes sense to include total audit hours for all issuer engagements in the firm-level metrics as proposed. Failure to include all audit hours will result in distortions in metrics and make them less comparable across firms who vary in terms of the composition of their client portfolios.

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 of the firm-level metrics are clear and appropriate because it provides an indication of the level of the involvement of partners and managers in the firm's audit engagements. However, I am concerned that the engagement-level metric could be misunderstood because the level of supervision and review should vary based on the nature of the company (e.g., size and complexity), the nature of the work assigned to engagement team members, the risks of material misstatement, and the knowledge, skill, and ability of each engagement team member.[7] It would be difficult to assess the metric without understanding how each of these factors influenced the involvement of the partner and manager.

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

I do not think it would be helpful to separate the calculations for partner and manager involvement because the degree to which partners delegate supervision and review responsibilities to managers will vary across partners. AS 1201 clearly permits the engagement partner to "seek assistance from appropriate engagement team members in fulfilling his or her responsibilities pursuant to this standard."[8] If separate calculations were to be required, it would also be necessary to provide significantly more context (e.g., the qualifications of the manager, the partner's familiarity with, and confidence in, the manager, the relative experience of other members of the engagement team) in order to make the metric meaningful. I do not support expanding the number of required metrics.

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?

No. See response to Question 19.

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?

The proposal does not provide a compelling argument for selecting one of these ratios over the other. It is not necessary to provide both calculations since they essentially measure the same thing.

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?

The proposal attempts to separate engagement partners from nonengagement partners in the firm-level calculations. While the Board acknowledges that "many partners serve both in the capacity of an engagement partner on some engagements as a partner supporting the engagement partner on other engagements," it proposes that "each be separately disclosed."[9] Since the proposal provides no justification for distinguishing between "engagement partners"

[7] See paragraph .06 of AS 1201, available at https://pcaobus.org/oversight/standards/auditing-standards/details/AS1201.
[8] See paragraph .04 of AS 1201, available at https://pcaobus.org/oversight/standards/auditing-standards/details/AS1201.
[9] See page 57 of the proposal.

and "other partners,", the distinction between engagement and non-engagement partners should be eliminated for purposes of calculating the firm-level workload metric.

The proposed engagement-level workload metric calculation is very complicated and will take considerable effort for firms to compile and calculate for every engagement. The cost of calculating this metric likely exceeds any benefit. The firm-level workload metric is significantly less complicated and should be sufficient for assessing a firm's capacity to accept new audit clients.

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?***

No. I do not think it is necessary to disaggregate the workload metrics for different levels of engagement team members. An aggregate metric that includes members of the engagement team other than the engagement partner should be sufficient to understand workload.

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?***

The proposal identifies several concerns with the auditor's specialist metric that were identified by commenters on the previously issued concept release, but fails to adequately address those concerns and, instead, simply concludes, "While we understand that not every engagement will require the use of auditor's specialists, the metric can provide useful insight into those engagements that involve specialists."[10] This argument does not explain how a firm-level metric on the use of specialists would be useful. The reality is that a firm-level metric would be useless and therefore, it should not be retained as a required metric.

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?***

The requirement for firms to collect data on every engaged specialist used by the firm during the year and to calculate an estimated number of hours will require a significant effort that far exceeds any benefit. The PCAOB should drop this requirement from the proposed list of required metrics.

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?

No. These firm-level metrics are not meaningful. One cannot assess audit quality based on the percentage of audits that required the use of a specialist because the need for specialist depends on client specific facts and circumstances. The fact that a firm has more audit engagements that require

[10] See page 50 of the proposal.

the use of specialist compared to another firm reveals nothing about the relative audit quality of the two firms.

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?

No. The proposed metric will not provide meaningful information. Adding a minimum involvement threshold will not make the firm-level metric any more or less meaningful.

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?

No. The PCAOB should not expand the number of required metrics that have already been proposed.

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?

No. Since the COVID-19 pandemic, many auditors work remotely and many audits are conducted partially or fully offsite. Members of engagement teams may not work in the same room. For this reason, it does not seem that a firm-level metric focused on a portion of the engagement team that works remotely (i.e. at a shared services center) is meaningful.

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?

No. The engagement partner is responsible to supervise and review the work, regardless of who performed it or where the work was performed. It is not meaningful to provide a detailed explanation of the work assigned to a particular set of professionals (i.e., those working in a shared services center) while ignoring the contributions of other members of the engagement team.

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?

Although the experience of audit personnel metrics are clear, it is unlikely that the firm-level metrics provide useful information about a firm's audit quality. If the firm-level metric is retained, relevant experience should include all experience at the public accounting firm. Firms should be permitted, but not required, to include experience at other accounting firms and relevant regulatory and standard setting experience in the calculation of the firm-level metric.

The engagement-level metrics are relevant for audit committees when making external auditor selection and retention decisions.

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 proposed firm-level industry experience metric provides the number of partners with at least 5 years of industry experience and managers with at least 3 years of industry experience. I suspect that firms will have to expend significant time and resources to compile and maintain these lists of professionals that meet these criteria. It is likely the cost of generating and maintaining this information will exceed any benefit.

There is a benefit for audit committees to know whether the engagement partner and engagement supervisory personnel to be assigned to their company's audit engagement have relevant industry experience. Therefore, the engagement-level industry experience metric should be useful to audit committees.

30. ***We have proposed the following considerations to be taken into account when determining an individual's industry experience: (1) industry experience may be, but is not required to be, exclusive to experience on audit engagements but must be relevant, (2) industry experience is not required to be in consecutive years, and (3) auditors may have industry experience in more than one unrelated industry. Are these the right considerations? Should industry experience be determined by a minimum number (or percentage) of hours on engagements within a particular industry? Does it matter whether the years of experience have been recent or if the experience was not obtained as an auditor? If so, please provide an explanation.***

I agree that industry experience should not have to be experience on audit engagements. A professional could join a public accounting firm after working in a financial reporting position for an issuer. The experience that individual gained working for an issuer should be considered relevant industry experience. I also agree that industry experience should not have to be consecutive years and that auditors might have industry experience in multiple unrelated industries.

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 proposed requirement of 250 hours or 25% of the auditor's time is a reasonable criterion for qualifying experience.

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?

I am not aware of a more suitable index for industry classification than the FTSE Russell Index.

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?***

    This would not be a meaningful firm-level metric. As the proposed metric is defined, a firm could be considered to have industry expertise in a maximum of ten industries. Larger firms likely have industry experts in more than ten industries.

    One alternative would be to allow each firm to list the industries for which they have specific expertise. For each industry identified, the firm could provide the number of partners and other professionals with expertise in that industry.

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?***

    I do not believe that firm revenue is a meaningful criterion for purposes of determining firm expertise. In response to the previous question (i.e. Question 33), I recommend allowing each firm to list the industries for which they have specific expertise. For each industry identified, the firm could provide the number of partners and other professionals with expertise in that industry.

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?***

    No. Individual audit committees should request additional information about the qualifications of proposed engagement team members based on individual facts and circumstances. The administrative burden of identifying multiple industries likely far outweighs any benefit.

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?***

    At the firm-level, I agree that the annual headcount metric will help to provide context for the retention rate metric.

    The proposed engagement-level retention rate metric will not useful. As discussed in the response to Question 4, the size of engagement teams tends to vary with client size. As a result, the engagement-level retention rate for smaller engagement teams will be significantly more sensitive to any turnover relative to the retention rate for larger engagement teams.

    The engagement-level tenure metric will be useless without context and could be detrimental to audit quality if it perversely incentives firms to manage engagement staffing based on achieving certain metrics rather than adjusting staffing to address risks of material misstatement. It is reasonable to expect turnover in engagement teams as professionals gain experience and are promoted to higher levels within their firms. Moreover, the audit partner is required to rotate every five years and that information is already available in the extant Form AP. Engagement staffing should be based on identified risks of material misstatement rather than a perceived need to achieve certain metrics. The composition of engagement teams is a matter better left to audit committees who have sufficient context to evaluate the adequacy of audit staffing in the context of identified risks of material misstatement.

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?***

    It makes sense to use a simple average of the count at the beginning and end of the year. It also makes sense to treat "promotions to another level of seniority as if they occurred at the beginning f the year."[11]

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?***

    The calculations at the engagement-level are clear. As discussed above (see response to Question 36), the engagement-level metrics are not appropriate because they are difficult to interpret without additional context. Information about engagement staffing would best be left for discussion between audit committees and the audit firms.

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?***

    No.

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

    I am not aware of alternative metrics that would be more useful than those proposed at the firm-level. The PCAOB should eliminate the proposed engagement-level retention and headcount metrics.

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?***

    The proposed engagement-level metric is not appropriate because there is insufficient context to evaluate the metric. It is unclear what interpretation one would make based on it. The proposal acknowledges that "time spent on significant risks and critical accounting policies, practices, and estimates could vary substantially across engagements based on the specific facts and circumstances of each engagement."[12] Moreover, the proposal acknowledges that approximately half of the comments on the Concept Release argued that "the time spent on auditing areas of risk is best evaluated by individual audit committees on individual engagements and that, as this metric would vary considerably from firm to firm and engagement to engagement, it would not be an area that could be properly evaluated."[13] The proposal also acknowledges that "the staff has not identified any firms that are currently reporting this information publicly."[14] The PCAOB should eliminate this proposed metric.

[11] See page 75 of the proposal.
[12] See page 80 of the proposal.
[13] See page 80 of the proposal.
[14] See page 80 of the proposal.

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?***

    Although I do not know the answer to this question, I doubt that partners and managers are tracking their time with this degree of precision. Because this metric is meaningless without sufficient context, the PCAOB should not impose this additional administrative burden that could divert partner and manager attention away from activities that would contribute to audit quality.

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

    See response to Question 41. This proposed metric should be eliminated.

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?***

    See response to Question 41. This proposed metric should be eliminated.

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?***

    This proposed metric would not be useful at the firm- or engagement-level. Since most companies have a calendar year end, firms have strong incentives to perform work as of an interim date to move hours outside of the traditional busy season. A firm's ability to shift work to an interim period is dependent upon a variety of factors, many of which are unrelated to audit quality. These proposed metrics should be eliminated.

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?***

    See response to Question 45. This metric should not be further disaggregated, it should be eliminated.

47. ***Are there other considerations related to the reporting of this metric that would increase its usefulness and comparability (e.g., including a subset of the firm-level metric by industry, by client year end, etc.)?***

    See response to Question 45. This metric should not be further disaggregated, it should be eliminated.

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

    The proposed firm-level metrics would not be useful as an unambiguous indicator of audit quality because they can be based on "an overall performance rating"[15] that likely focuses on

[15] See page 88 of the proposal.

matters unrelated to audit quality (e.g., client acquisition and retention). The PCAOB considers partner compensation as part of the inspection process and should continue to do so.

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

    All firms should be exempt from this requirement. The proposed metric should be eliminated.

50. ***If firms do not have a specific quality performance rating for partners and use an overall performance rating instead, should they be required to indicate the use of an overall performance rating? Is there another way for these firms to report the correlation between partner performance and compensation? If so, what is it?***

    This proposed metric should be eliminated. However, if the Board chooses to retain it, firms should be required to indicate whether the metric is calculated based on an audit quality specific rating or an overall performance rating.

51. ***We do not propose to define partner compensation in Section III.B.1. Should the nature (e.g., cash vs. non-cash) or the types (e.g., distributions, bonus, partner draws, etc.) of compensation that should be included or excluded in the calculation be described? Are there any types of compensation that should be excluded? If so, what are they? And why?***

    See response to Question 48. This proposed metric should be eliminated.

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

    See response to Question 48. This proposed metric should be eliminated.

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?***

    Yes. If the Board moves forward with this proposal, it should eliminate the "quality performance ratings and compensation" metric and instead require firms to disclose how partner audit quality is measured and how that measurement influences compensation.

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?***

    I am concerned that the proposed metric could impair the quality of firms' internal inspections because public reporting will serve as a disincentive for finding deficiencies. Firms should have rigorous internal inspections that find deficiencies, determine the root cause(s) of identified deficiencies, and remediate those deficiencies in a timely manner. Required public reporting of deficiency rates and the actual number of engagement deficiencies may result in less rigorous monitoring and could be detrimental to audit quality.

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.

The proposed engagement-level metric should be eliminated because it has the potential to create confusion about the reliability of previously issued financial statements. When deficiencies are identified in internal inspection, AS 2901 requires the firm to "assess the importance of the omitted procedures" and, if necessary, to "promptly undertake to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for [the] opinion."[16]

Instead of requiring the proposed metric, the PCAOB could consider revising AS 1301 to require auditors to discuss the results of an internal inspection with the client's audit committee. In a two-way dialogue, the audit committee would be able to understand the nature of the deficiencies and the work done by the auditor to remediate the deficiencies.

56. For each engagement deficiency identified, we are proposing that the areas of noncompliance and the type of testing deficiency or the standard or rule with which the noncompliance was identified also be disclosed. Is this an appropriate level of detail to understand identified deficiencies? Why or why not?

See response to Question 55. I do not believe this is sufficient information to provide context for investors to clearly understand the results of internal inspection and the reliability of the audited financial statements.

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

See response to Question 55.

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

As proposed, the metrics explicitly exclude restatements resulting from changes in accounting principles.[17] The metrics should also exclude restatements resulting from stock splits and similar activities that result in non-error restatements.

The description of the firm-level metric appears to include restatements of non-issuer financial statements. Restatements of non-issuer financial statements should be excluded from this metric.

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

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[16] See AS 2901 available at https://pcaobus.org/oversight/standards/auditing-standards/details/AS2901.

[17] See page 102 of the proposal.

It would be better to require firms to report three years because it will greatly reduce the burden on terminated firms to track the restatements of their former audit clients. Since issuers are required to present three years of income statements in the financial statements included in Form 10-K, they will need to obtain consents from former auditors for those prior periods. As a result, terminated firms will be made aware of any restatements when requested to provide consents.

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

    I do not see any harm in reporting revision restatements as long as they are clearly segregated from resissuance restatements.

61. ***Are firms currently tracking revision restatements, reissuance restatements, or both for issuer engagements for which the firm issued an audit report? If so, which category of restatements does the firm currently track and for how long does the firm track this information?***

    N/A

62. ***Do you agree with the proposal to count multi-year audit restatements based on each year impacted by the restatement? Why or why not?***

    If a single error impacts multiple years, it may not be fair to consider it to be multiple restatements. However, it is also possible to have multiple errors that impact only a single year and I would not support basing the restatement metric on the number of errors corrected in a single year. Thus, I support counting multi-year restatements based on each year impacted by the restatement.

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

    No. Engagement-level restatements are publicly reported by issuers so this information would be redundant.

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?***

    Firm-level metrics should be required of annually inspected firms that audit at least one "accelerated filer" or "large accelerated filer." This would greatly reduce the burden for smaller firms.

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

    See response to Question 64.

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?***

    I agree that engagement-level metrics should not be required for non-accelerated filers or investment companies for the reasons discussed in the proposal.[18]

[18] On page 108 of the proposal, the Board states, "We believe this rationale primarily applies to accelerated filers and large accelerated filers, the largest reporting companies in the U.S. public markets, where the overwhelming majority of investor capital is at stake. Our preliminary view is that it would be appropriate to focus reporting requirements on

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?***

    I do not think that the reporting date for firm-level metrics should matter to investors. Therefore, the PCAOB should consider firm input as to the date that best aligns with their internal processes. The PCAOB should consider allowing flexibility for firms to select their reporting date.

    I encourage the PCAOB to carefully consider feedback from firms regarding the deadline for reporting firm-level metrics. A 61-day period may not be sufficient to allow firms to accurately and completely collect, assemble, and report the metrics.

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?***

    See response to Question 67. The PCAOB should allow firms flexibility in selecting their reporting date.

69. ***Are proposed Rule 2203C, Firm Metrics, and proposed Form FM instructions included in Appendix 1, clear and appropriate? If not, why not?***

    The PCAOB should carefully consider the feedback from the firms with respect to this question.

70. ***Are there certain firm organizational or legal structures that might make reporting certain metrics challenging (e.g., alternative practice structures)? If so, please describe the structure and which metrics would pose a challenge and why.***

    The PCAOB should carefully consider the feedback from the firms with respect to this question.

71. ***Are proposed amendments to Form AP instructions, included in Appendix 2, clear and appropriate? If not, why not?***

    The PCAOB should carefully consider the feedback from the firms regarding this question.

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

    This would be an unnecessary requirement. If the PCAOB moves forward with the proposal, the metrics will be available to audit committees via the PCAOB website. Audit committees that find the metrics useful can access them.

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?***

    No. The audit report should NOT include any of these metrics.

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?***

    See response to Question 73. Metrics should NOT be included in the audit report.

the firms and engagements in which investors and other stakeholders have the greatest interest in additional information."

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)?***

    See response to Question 73.

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

    The PCAOB should carefully consider feedback from the accounting firms regarding the cost and capacity to timely provide metrics in the audit report.

77. ***Would it be appropriate to allow confidential treatment of any of the metrics required on Form FM or Form AP? If so, which metrics and on what basis?***

    Yes. Firms should be allowed to request confidential treatment for metrics related to internal monitoring. As discussed in the response to Question 54, public reporting of these metrics will serve as a disincentive for finding deficiencies and may be detrimental to audit quality.

78. ***Are there any U.S. or non-U.S. laws that would prohibit reporting the proposed firm-level or engagement-level metrics to the PCAOB or publicly? If so, please describe such laws and the proposed metrics to which it is realistically foreseeable that they would apply. In particular, please identify any metrics that may call for disclosure of personally identifiable information and the type of personally identifiable information that could be required to be disclosed.***

    The PCAOB should carefully consider any feedback with regard to this question that the Board receives from parties with legal expertise.

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

    Yes.

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?***

    I agree with the Board's decision not to propose a training metric for the reasons discussed in the proposal.

    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?***

       No.

    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?***

       No. As discussed in the proposal, "a large portion of specialized training, including industry-specific training, is documented in the more general field of accounting and auditing by groups such as NASBA."[19]

[19] See page 118 of the proposal.

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?***

   I do not believe it would be useful or appropriate to require disclosure of training hours for the reasons described in the proposal.

81. ***Are there other metrics related to training that we have not considered that would provide more useful information than those that we have considered? If so, what are they? Are there ways to capture the qualitative aspects of training in a metric? If so, how?***

    No.

82. ***How could the information provided by a training metric be used by investors, audit committees, and other stakeholders? Would reporting a training metric have unintended consequences and, if so, what are they?***

    N/A

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?***

    No. I agree with the rationale described in the proposal.

84. ***Would it be useful and appropriate to require disclosure of firm- and engagement-level metrics specific to use of the firm's national office resources? If so, how would such information be used?***

    No.

    a. ***"National office" is not a defined term and may have different meanings at different firms. How should "national office" be defined?***

       I think it would be difficult to define the term "national office" in a way that is meaningful unless the definition is applied only to the largest accounting firms. Therefore, I do not think the PCAOB should define the term.

    b. ***Would it be useful and appropriate for a metric regarding national office involvement include every consultation (e.g., required or voluntary) or should a distinction be made between types of consultations? If so, how should that distinction be made?***

       No. The Board should not define a metric regarding national office involvement for the reasons described in the proposal.[20]

    c. ***Would a firm-level metric indicating the percentage of audit engagements that have consulted with the national office be appropriate and useful? Why or why not? Would an engagement-level metric indicating the number of consultations performed by the engagement team be appropriate and useful? Why or why not?***

       Such a metric would not be meaningful because the need to consult varies with the facts and circumstances of each engagement including the specific transactions in which a client engages as well as the expertise of the engagement partner and other members of the engagement team.

[20] See the first full paragraph on page 121 of the proposal.

d. ***How would such a metric work at firms that do not have a national office or equivalent? Should such firms provide information regarding consultations with others inside or outside the firm?***

Such a metric would not work and should not be required.

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?

No. Such a metric would not be meaningful because investments dollars vary in their success rates and may be directed at objectives other than audit quality.

86. Are there other metrics related to investment in infrastructure that we have not considered that would provide more useful information than those that we have considered?

No.

87. How would investment in infrastructure be defined?

N/A – The PCAOB should not require such a metric.

88. Are there specific considerations or other unintended consequences that we should take into account regarding the potential disadvantages of requiring such a metric for smaller firms?

Smaller firms obviously have less resources to invest in infrastructure.