



Analysis of PCAOB Proposals on Public Disclosure of Firm and Engagement Metrics and Firm Reporting

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CAQ

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OVERVIEW

On April 9, 2024, the PCAOB issued two proposals, *Firm and Engagement Metrics*, and *Firm Reporting*, that would expand reporting requirements by requiring audit firms to make publicly available both firm-wide and individual client engagement information. Comments on both proposals are due June 7, 2024.

The metrics the PCAOB has proposed more disclosure and standardization of are already accessible to corporate boards, but According to Chair Williams, the purpose of these proposals is to “strengthen PCAOB oversight and equip investors, audit committees, and others with clear, consistent, and actionable data related to the audit.”

This summary is not intended to be an endorsement or rejection of these proposals, their objectives, or the notion of mandating reporting requirements for certain metrics. Rather, this analysis is intended to (1) provide an overview of the proposed requirements, (2) raise awareness of the proposals within stakeholder groups whose audit engagement data could be made public as a result of implementation, and (3) encourage stakeholder groups the PCAOB believes will benefit from this information to share their perspectives with the PCAOB, whether through the comment letter process, requested meetings with PCAOB Board members and/or staff or otherwise, on the proposed requirements.

FIRM AND ENGAGEMENT METRICS

The *Firm and Engagement Metrics* proposal would require firms to report certain firm and engagement performance metrics to be made public (i.e., available on the PCAOB's website) on a new form (Form FM for firm-level metrics) and a revised Form AP (for engagement-level metrics for the audits of large accelerated filers (LAFs) and accelerated filers (AFs)) (See Appendix 1 for illustrative examples of the proposed metrics from the PCAOB proposal).

The PCAOB believes that the current voluntary system for reporting firm and engagement metrics is not yielding comparable information that audit committees and investors want for decision-making purposes.

If adopted as proposed, detailed information about individual issuer audit engagements will be available publicly on the PCAOB's website. While large audit firms currently publish audit quality reports, the proposed requirements would significantly expand and standardize information available at a firm level and for the first time require public reporting of engagement-level metrics.

CONCERN VOICED BY PCAOB LEADERSHIP

Board Member Christina Ho, one of the two CPA board members, [cautiously supported](#) the Firm and Engagement Metrics proposal. Some of the concerns she raised included:

- + Adverse impact on financial reporting:** Certain proposed metrics might ultimately distract the engagement team's focus from auditing to gathering data to support reporting. For example, to report the proposed metric, *hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours*, may present administrative challenges and distract the engagement team's focus from auditing to accurately allocating work hours across overlapping audit areas.
- + Transparency without a purpose:** Regulators have an obligation to ensure they do not contribute to the culture of misinformation by unscrupulous actors who seek to sow the seeds of chaos into the financial reporting ecosystem. Board member Ho expressed concern that the proposal falls short in providing sufficient context for some of the subjective and complex metrics such that they may not be useful in decision making.
- + Utility of information to stakeholders:** The premise that audit committees somehow need standardized metrics to aid in their comparison and selection of auditors is theoretical. Audit committee members and chairs already have access to any information needed to fulfill their statutory responsibilities.

Board Member Ho also reemphasized concerns she expressed at a [previous open meeting regarding the pace at which the PCAOB is seeking input on proposals without consideration for stakeholder bandwidth to provide thoughtful perspectives](#). "I am concerned that we are not mindful of the limited capacity of some of our stakeholders to respond to our ongoing stream of proposals with short comment periods. I am particularly concerned about smaller firms having the capacity to review the proposals and provide comments."

The PCAOB believes that the current voluntary system for reporting firm and engagement metrics is not yielding comparable information that audit committees and investors want for decision-making purposes.

FIRM REPORTING

The *Firm Reporting* proposal would enhance reporting of firm financial, governance, and network information; establish timelier and expanded special reporting; and require new disclosures related to cybersecurity and other topics through amendments to Form 2 (annual reporting) and Form 3 (special reporting).

The PCAOB believes that the proposed additional reporting requirements would be informative and useful to investors, audit committees, and other stakeholders when evaluating audit firms. Further, the PCAOB suggests that implementing the proposals would enhance investor confidence in public company audits and, therefore, in financial reporting. Finally, the PCAOB believes that the enhanced reporting requirements would further facilitate the PCAOB's regulatory functions.

CONCERN VOICED BY PCAOB LEADERSHIP

Board member Ho cast the only [dissenting vote](#) on this proposal following her cautious support for the firm and engagement metrics proposal. This is Board Member Ho's second dissent and only the third known dissent by a PCAOB appointee to a proposed rule or standard since the PCAOB was established in 2002. In 2023, Board Member Ho and former Member Duane DesParte both opposed the PCAOB's proposal on noncompliance with laws and regulations (NOCLAR). Some of the concerns expressed in her statement on the proposal included:

- ✦ The proposal represents an overreach of regulatory power and stands to undermine competition.
- ✦ The proposal fails to quantify the value of the increased reporting and recordkeeping requirements nor their estimated costs.

Board member Ho reemphasized her concerns about the cumulative impact of their standard setting efforts on the public company auditing profession, and particularly, the consequence for audit firm concentration. "I am profoundly worried that the Board's apparent zeal to impose, in each new proposed standard or rule, new burdens on firms, without sufficient tailoring and without quantifying the estimated burdens, may end up breaking the public company auditing profession's back, particularly for small firms."

SHARE YOUR VIEWS WITH THE PCAOB

The CAQ has spent over a decade working with auditors and audit committees to better understand the qualitative and quantitative information that enable audit committees and other stakeholders to evaluate audit quality. We have long advocated for transparency that is meaningful. It's crucial to ensure that any requirements implemented will be used to enhance audit quality, and not inadvertently incentivize behaviors that could compromise audit quality.

As the PCAOB moves forward with these projects, it is important that they hear from all stakeholders. We encourage issuers, audit committees and other stakeholders to share their views with the PCAOB.



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Christina Ho,
Board member,
PCAOB

Five questions to consider as you form your views on the proposal and determine whether you will submit a comment letter:

1. Will you/your stakeholders use the information the PCAOB is proposing to be collected and reported across both proposals and, if so, how?
2. Do you have concerns about data specific to your audit being available publicly (e.g., misused, misinterpreted, confidentiality)?
3. What unintended consequences should the PCAOB consider with respect to either of the proposals?
4. Do you have concerns about potential regulatory overreach with either of the proposals?
5. Do you have concerns about the cumulative impact of the PCAOB's standard and rule-setting efforts on audit quality?
6. Comment letters in response to the Firm and Engagement Metrics proposal can be submitted [here](#).
7. Comment letters in response to the Firm Reporting proposal can be submitted [here](#).

To contact the PCAOB visit this [link](#).

If you have views but do not have time to submit a comment letter, send an email to help@thecaq.org to share your perspectives.

Appendix 1:

PCAOB Firm and Engagement Performance Metrics Proposal

Summary of Proposed Metrics and Examples¹

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PARTNER AND MANAGER INVOLVEMENT

Level: Firm and engagement

Description: Hours worked by senior professionals relative to more junior staff across the firm’s issuer engagements and on the engagement.

PCAOB Objective: The PCAOB believes that this metric would provide useful information to assist in understanding hours worked by senior professionals relative to more junior staff, allow for assessment of associated risks, and could provide users with information regarding each firm’s oversight of their engagements and the supervision of less experienced engagement team members.

Example firm-level reporting for Form FM:

| | | |
|---------------------------------|--|-----|
| Partner and Manager Involvement | Percentage of total audit hours for partners and managers for all issuer engagements | 29% |
|---------------------------------|--|-----|

Example engagement level reporting for Form AP:

| | | |
|---------------------------------|---|-----|
| Partner and Manager Involvement | Percentage of total audit hours for partners and managers | 36% |
|---------------------------------|---|-----|

¹ All examples are pulled from the PCAOB’s proposal, Firm and Engagement Performance Metrics.

WORKLOAD

Level: Firm and engagement

Description: Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff, including time attributable to engagements, administrative duties, and all other matters.

PCAOB Objective: The PCAOB believes that the information provided by this metric may help audit committee members and other stakeholders understand the various activities competing for an engagement partner’s time. The engagement-level information could be compared to the average quarterly workload for engagement partners within the firm or across firms.

Example firm-level reporting for Form FM:

| Workload | Quarter ended | Average Weekly hours worked | |
|----------|-------------------|-----------------------------|---|
| | | Engagement Partners | Partners (excluding engagement partners), Managers, and Staff |
| | Sep 30, 20X3 | 48 | 48 |
| | June 30, 20X3 | 46 | 49 |
| | March 31, 20X3 | 61 | 64 |
| | December 31, 20X2 | 50 | 55 |

Example engagement-level reporting for Form AP:

| Workload | Quarter ended | Average Weekly hours worked during the engagement | |
|----------|-------------------|---|---|
| | | Engagement Partners | Partners (excluding engagement partners), Managers, and Staff |
| | Sep 30, 20X3 | 54 | 47 |
| | June 30, 20X3 | 46 | 45 |
| | March 31, 20X3 | 44 | 55 |
| | December 31, 20X2 | 63 | 61 |

AUDIT RESOURCES – USE OF AUDITOR’S SPECIALISTS AND SHARED SERVICE CENTERS

Level: Firm and engagement

Description: Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.

PCAOB Objective: The PCAOB believes that at the firm level, this metric may provide audit committees and investors with some visibility into a firm’s use of other resources on its issuer engagements. At the engagement level, this metric may provide audit committees with a basis for discussion with their auditors, as well as providing investors with a basis for discussion with management on the use of auditor’s specialists or share service centers and the areas in which they were involved given the specific facts and circumstances of the engagement.

Example firm-level reporting for Form FM:

| | | |
|--------------------------------------|---|------------|
| Use of Auditor’s Specialists | Percentage of issuer engagements that used specialists | 64% |
| Use of Shared Service Centers | Percentage of issuer engagements that used shared service centers | 80% |

Example engagement-level reporting for Form AP:

| | | |
|--------------------------------------|--|------------|
| Use of Auditor’s Specialists | Percentage of total audit hours provided by specialists | 2% |
| Use of Shared Service Centers | Percentage of total audit hours provided by shared service centers | 15% |

EXPERIENCE OF AUDIT PERSONNEL

Level: Firm and engagement

Description: Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.

PCAOB Objective: The PCAOB believes that at the firm level, this metric may provide information regarding the “bench depth” of firm personnel and the ability of the firm to staff its engagements. At the engagement level, the engagement team’s years of experience may provide useful information about the depth of experience of the engagement team for the particular issuer engagement.

Example firm-level reporting for Form FM:

| | | | |
|--------------------------------------|---|---------------------|---|
| Experience of Audit Personnel | | Engagement Partners | Partners (excluding engagement partners) and Managers |
| | Average years of experience at a public accounting firm | 20 | 8 |

Example engagement-level reporting for Form AP:

| | | | |
|--------------------------------------|--|---|---|
| Experience of Audit Personnel | Years of experience at a public accounting firm for the Engagement Partner | Years of experience at a public accounting firm for the Engagement Quality Reviewer | Average years of experience for Partners (excluding the engagement partner), and Managers on the Core Engagement Team |
| | 23 | 19 | 11 |

INDUSTRY EXPERIENCE OF AUDIT PERSONNEL

Level: Firm and engagement

Description: Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company’s primary industry at the engagement level.

PCAOB Objective: The PCAOB believes that this metric would assist in gaining an understanding of the experience of firms’ audit personnel across industries, which is an important factor in determining whether the firm has the capacity and resources to perform audits of issuer engagements that benefit from specific industry knowledge. The firm-level metrics could provide information related to the firm’s industry specialization and the engagement-level metrics could provide information related to the assignment of partners, managers, and the engagement quality reviewer to issuer engagements based on that experience.

Example firm-level reporting for Form FM:

| | | | |
|--|---|--|--|
| Industry Experience of Audit Personnel | Industry that accounts for at least 10% of the firm’s revenue from audit services | Number of Partners with > 5 years of industry experience | Number of Managers with > 3 years of industry experience |
| | Banks | 15 | 45 |
| | Utilities | 10 | 30 |
| | Retail | 12 | 63 |
| | Consumer services | 5 | 13 |
| | Oil and gas | 4 | 6 |

Example engagement-level reporting for Form AP:

| | | | |
|---|---|--|--|
| Industry Experience of Audit Personnel in the Issuer’s Primary Industry | Select the issuer’s primary industry from the list provided | | Retail |
| | Engagement Partner years of experience in the issuer’s primary industry | Engagement Quality Reviewer years of experience in the issuer’s primary industry | Combined number of engagement team Partners (excluding the engagement partner) AND Managers who have industry experience |
| | 16 | 24 | 5 |

RETENTION AND TENURE

Level: Firm and engagement

Description: Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

PCAOB Objective: At the firm and engagement levels, the retention rate and the headcount change are intended to reflect the overall readiness, availability, and ability of the firm or the engagement team to conduct an effective and efficient audit. The PCAOB, citing academic literature, believes that turnover negatively impacts audit quality.

Example firm-level reporting for Form FM:

| | | | |
|-----------------------------|---------------------------------|----------|----------|
| Retention and Tenure | | Partners | Managers |
| | Average number | 85 | 202 |
| | Average Annual retention rate | 91% | 83% |
| | Average Annual headcount change | 125% | 98% |

Example engagement-level reporting for Form AP:

| | | | | |
|-----------------------------|----------|---|---------------------------------|--|
| Retention and Tenure | | 20X3 Audit – as of the date of the audit report | | |
| | | Average annual retention rate | Average annual headcount change | Average tenure on the engagement (years) |
| | Partners | 0% | 100% | 1 |
| | Managers | 33% | 33% | 4 |

AUDIT HOURS AND RISK AREAS

Level: Engagement only

Description: Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.

PCAOB Objective: The PCAOB believes that this metric would provide information regarding the extent to which partners and managers focused on areas that present a higher overall risk of material misstatement to the financial statements. The time devoted by partners and managers to areas that represent particular risks in the audit could indicate whether partners and managers focused their time sufficiently on those areas.

Example engagement-level reporting for Form AP:

| | | |
|-----------------------------------|--|------------|
| Audit Hours and Risk Areas | Percentage of total audit hours incurred by Partners and Managers on the engagement team on significant risks, critical accounting policies and practices, and critical accounting estimates | 36% |
|-----------------------------------|--|------------|

ALLOCATION OF AUDIT HOURS

Level: Firm and engagement

Description: Percentage of hours incurred prior to and following an issuer’s year end across the firm’s issuer engagements and on the engagement.

PCAOB Objective: The PCAOB believes that, at the engagement level, performing audit work prior to the issuer’s year end may allow the audit team to identify significant issues in a timely manner and provide the audit team with the opportunity to address those issues earlier. It may also enable engagement teams to have the resources available to appropriately respond to significant issues identified after year end. The PCAOB believes that discussing this metric with the audit committee could provide the audit committee with information regarding aspects of the engagement performance.

Example firm-level reporting for Form FM:

| | | |
|----------------------------------|--|-----|
| Allocation of Audit Hours | Percentage of audit hours incurred prior to issuers' year ends for all issuer engagements | 62% |
| | Percentage of audit hours incurred following issuers' year ends for all issuer engagements | 38% |

Example engagement-level reporting for Form AP:

| | | |
|----------------------------------|--|-----|
| Allocation of Audit Hours | Percentage of total audit hours incurred prior to issuer's year end | 64% |
| | Percentage of total audit hours incurred following the issuer's year end | 36% |

QUALITY PERFORMANCE RATINGS AND COMPENSATION

Level: Firm only

Description: Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.

PCAOB Objective: The PCAOB believes that comparing the relationship between internal firm quality performance ratings and changes in compensation levels could provide evidence of the extent of any correlation between quality performance ratings and compensation, and thereby provide an important signal of the value of a quality commitment for the firm.

Example firm-level reporting for Form FM:

| | Quality performance rating assigned in 20X3 | Distribution of quality performance ratings | Average annual compensation adjustments (as a % of adjustment for the highest rated group) |
|---|--|--|---|
| Quality Performance Ratings and Compensation | 1 | 7% | 100% |
| | 2 | 20% | 80% |
| | 3 | 73% | 49% |
| | 4 | 0% | N/A |

AUDIT FIRM INTERNAL MONITORING

Level: Firm and engagement

Description: Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.

PCAOB Objective: The PCAOB believes that information about, and results of, a firm's internal engagement monitoring activities could provide insight into the performance of a firm's engagements. The rationale being, understanding this information could be important to audit committees and investors when evaluating the auditor's performance. At the firm level, these users may find it helpful to compare internal issuer engagement monitoring activities over time and across firms, for example, by comparing the percentage of issuer

engagements that each firm selected for monitoring. Information regarding the internal monitoring results of specific engagements may provide audit committees and others with more insight into the auditor’s performance. Such information may provide areas for the audit committee and others to ask more detailed questions regarding the audit and the engagement team.

Example firm-level reporting for Form FM:

| | | |
|---------------------------------------|---|--------------------------------------|
| Internal Engagement Monitoring | Period covered by the firm’s most recently completed internal monitoring cycle | September 1, 20X2 to August 31, 20X3 |
| | Percentage of issuer engagements selected for internal monitoring | 13% |
| | Percentage of internally monitored issuer engagements where an engagement deficiency was identified | 21% |

Example engagement-level reporting for Form AP:

| | | | | |
|--|---|--|--|--|
| Internal Engagement Monitoring | Previous engagement monitored | Yes | | |
| | (i) Financial statement year end monitored | December 31, 20X2 | | |
| | (ii) Deficiency(ies) identified | Yes | | |
| | (iii) Deficiency description: | | | |
| | a. Deficiency related to: [select from drop-down] • Financial statement line item, • Disclosure, or • Other noncompliance with applicable professional and legal requirements | b. Area of noncompliance | c. Identify type of testing deficiency or area of noncompliance with other applicable professional or legal requirements | |
| | 1 – Financial statement line item | PP&E | Testing of control design or effectiveness | |
| | 2 – Disclosure | Fair value | Test of details | |
| 3 – Other noncompliance with applicable professional and legal requirements | Communications | AS 1301, Communications with Audit Committees | | |

RESTATEMENT HISTORY

Level: Firm only

Description: Restatements of financial statements and management reports on internal control over financial reporting (“ICFR”) that were audited by the firm over the past five years.

PCAOB Objective: Restatements for errors (e.g., not for changes in accounting principles) are generally considered a sign of potential difficulties in at least parts of a firm’s audit practice. Academic literature suggests that restatements provide the cleanest empirical measure of audit failure.

Example firm-level reporting for Form FM:

| | Audit Report Initially Issued | | | | |
|--|-------------------------------|------|------|------|------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Restatement History | | | | | |
| Revision restatements of the financial statements for errors | 0 | 3 | 6 | 3 | 8 |
| Reissuance restatements of the financial statements for errors | 0 | 1 | 2 | 1 | 3 |
| Reissuance restatements of management’s report on ICFR | 0 | 1 | 1 | 0 | 0 |
| Total issuer engagements | 100 | 105 | 110 | 105 | 100 |
| Total issuer engagements with audits of ICFR | 30 | 35 | 40 | 35 | 30 |

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The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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