

Office of the Secretary,
PCAOB, 1666 K Street,
NW, Washington,
DC 20006-2803

Sent by email:
comments@pcaobus.org

Brussels, 7 June 2024

Subject: Accountancy Europe's comments to PCAOB's proposed firm and engagement metrics

Dear Sir or Madam,

Accountancy Europe is pleased to provide you with its comments on the proposed amendments to PCAOB rules and reporting forms to require the reporting of specified firm-level and engagement-level metrics. We are also pleased to see the references made to our own work in this area throughout the consultation document.

We have chosen to restrict our response to address global aspects with a public interest lens focusing on audit quality. When applicable, we included the question numbers for reference.

OVERALL COMMENTS

The metrics proposed by the PCAOB have the potential to pave the way for meaningful discussions on audit quality, although a learning curve is inevitable. The evolution of quality metrics reporting, as a means to support audit quality, necessitates ongoing dialogue with all relevant stakeholders. During these engagements, the PCAOB should manage expectations by reiterating that these metrics do not give definitive results. Instead, they form a valuable starting point, and each metric has its own limitations that should be accepted without overshadowing associated value and benefits.

The PCAOB can utilize the proposed reporting mechanism to shape its oversight approach and to inform the public about the outlook and trends in the audit market. Furthermore, by sharing its assessments with the firms, the PCAOB can more effectively fulfil its role as a regulator focused on improvement.

We suggest that the PCAOB consider a pilot implementation of its project to obtain feedback on the understandability and usefulness of the proposed metrics. In such an initiative, selected firms or those volunteering would report metrics privately to the PCAOB in an iterative process. Based on the lessons learned and the pilot results, the PCAOB could then refine or clarify the metrics for public reporting in a subsequent phase.

Firms already operate quality management systems that involve the collection and analysis of data on audit quality. These systems are updated as necessary, e.g., when there is new legal requirement or standard such as PCAOB's QC 1000. Efficiency and proportionality can be achieved only if the metrics proposed by the PCAOB are consistent with the information currently monitored by the firms.

Evaluating audit quality requires the consideration of a combination of drivers, including inputs, outputs, and the interactions of various factors within legal, regulatory, professional, and cultural contexts. It also depends on the perspective from which audit quality is assessed, making an understanding of the context essential for interpreting audit quality metrics. In this regard, we support PCAOB's proposal to allow for optional narrative disclosures for each metric.

SPECIFIC COMMENTS ON PROPOSED METRICS

PARTNER AND MANAGER INVOLVEMENT (QUESTIONS 18-21)

We agree that partners and managers play an important role in audit engagements. Accordingly, firm- and engagement-level metrics on their involvement could provide useful information to the market. Descriptions and calculations of the proposed metrics are quite clear and appropriate. However, shared service centres should be excluded from the metrics as these centres are not accounting firms themselves and may be structured in a way where the proposed taxonomy for the functional roles (i.e. partners, managers and staff) is not relevant.

Separate metrics to distinguish partners and managers could be considered at a later stage by the PCAOB. Similarly, we agree that a specific metric solely for engagement partners should not be introduced for the initial periods of reporting.

WORKLOAD (QUESTIONS 22-23)

We agree that a heavy workload may have an impact on whether auditors have sufficient time to appropriately plan, execute and report an engagement making appropriate judgments as necessary. Having said that, the cyclic nature of financial reporting and audit makes it unavoidable that some periods of the year are way busier than others and auditors are used to this phenomenon. In addition, increasing use of technology for routine tasks of an audit engagement frees up the time of the auditors allowing them to focus on analysis and exercise professional judgement.

We agree that at the engagement level, metrics related to only the core engagement team will be more useful to investors and other stakeholders.

AUDIT RESOURCES – USE OF AUDITOR'S SPECIALISTS AND SHARED SERVICE CENTRES (QUESTIONS 24-27)

The metrics proposed under this section are highly contextual as the level of specialists' involvement typically depends on the engagement circumstances such as the industry of the audited entity. Similarly, the extent of reliance on shared service centres is closely linked to the firm structure and resources as well as the specificities of the audit engagement. Accordingly, it will be very challenging, if not impracticable for the stakeholders to make assessments about audit quality considering these metrics. Therefore, narrative disclosures become more pertinent to have an overview of the context and thus the 500-character limit is not adequate particularly for this metric.

However, it could be beneficial for the PCAOB to collect proposed firm-level metrics categorised by industry with a view to share its analysis and conclusions, if any, with the firms and public.

(INDUSTRY) EXPERIENCE OF AUDIT PERSONNEL (QUESTIONS 28-35)

We agree that experience of audit team, including industry experience, is one of the key drivers of audit quality. When calculating proposed metrics, relevant experience within the accountancy firm should not be limited to auditing experience only. Furthermore, other relevant experience should also be considered such as working at a relevant regulator or standard setter, serving as an Audit Committee Chair/member or Chief Audit Executive in an issuer, etc.

However, this kind of data, particularly experience outside the accounting firm, is not typically tracked in firms. Therefore, the metrics should be limited to the engagement partner and the engagement quality reviewer (EQR). For individual engagements, firms already provide issuer's management, and audit committees as appropriate, with the information about the collective competence and expertise of the engagement team.

In our view, the Industry Classification Benchmark (ICB), operated and managed by FTSE Russell Index is an appropriate reference for industry classification.

RETENTION AND TENURE (QUESTIONS 36-40)

The metrics on engagement team members' retention and tenure should be considered in conjunction with other metrics reported rather than presuming a specific correlation with audit quality or auditor's independence. For example, in EU there are specific legal and ethical requirements regarding mandatory rotation of key audit partners.

With regards to proposed firm-level retention metric, PCAOB should clarify whether "other service lines within the firm" includes "other accounting services" as defined by PCAOB Rule 1001(o)(i). These are assurance and related services that are reasonably related to the performance of the audit and thus should not be considered as other lines for the purposes of quality metrics reporting.

AUDIT HOURS AND RISK AREAS (QUESTIONS 41-44)

We do not believe that firms are specifically tracking the time incurred by partners and managers on significant risks, critical accounting policies, and critical accounting estimates although it should be possible to extract this data from internal monitoring systems with considerable time and complexity. For this metric, PCAOB should consider a requirement to report the absolute number of audit hours spent on these areas in addition to being reported as a percentage.

ALLOCATION OF AUDIT HOURS (QUESTIONS 45-47)

Proposed calculations and descriptions related to the allocation of audit hours are clear and appropriate. A more granular metric devoted to different phases of an engagement would be very challenging to measure and interpret as the audit is an iterative process. In addition, audit procedures may be performed to meet more than one specific objective and thus may relate for instance to both planning and execution phases of the engagement.

QUALITY PERFORMANCE RATINGS AND COMPENSATION (QUESTIONS 48-53)

Although there may generally be a connection between indications of the quality and partner compensation, there are other factors considered by firms in determining compensation policies and adjustments. As such, metrics comparing the relationship between internal firm quality performance ratings and changes in compensation levels on an average basis could provide limited value to stakeholders with regards to firm's commitment to quality. We expect that many firms will disclose their policies relating to partner compensation and how quality performance is incorporated into these policies as a narrative disclosure accompanying this metric.

We also support the exemption granted to firms that are not within the scope of the SEC's partner rotation rule.

AUDIT FIRMS' INTERNAL MONITORING (QUESTIONS 54-57)

Monitoring and remediation process is an essential component of firms' quality management systems and thus we agree that providing a certain level of transparency in this area could be useful for interested stakeholders. We would like to highlight the concerns mentioned in the consultation document including that the metrics may not be comparable, may lead to disclosure of confidential information, and may be misleading because internal quality reviews have broader purposes than external inspections.

As noted above, a pilot project to ensure that these concerns are adequately addressed before requiring public disclosure of proposed metrics will be essential.

RESTATEMENT HISTORY (QUESTIONS 58-63)

Restatements are often selected as an indicator of audit quality in academic studies mainly because relevant data is publicly available and easily comparable. However, the relationship between the quality of financial reporting, including internal control over financial reporting, and audit quality is quite a complex matter that needs to be further investigated.

In this regard, metrics provided by audit firms cannot be considered as the only proxy for measuring the quality of financial reporting. Similarly, such metrics can provide only limited insight into the quality of public oversight over issuers and auditors. Therefore, stakeholders would need additional metrics for the evaluation of quality in financial reporting, its supervision and audit oversight.

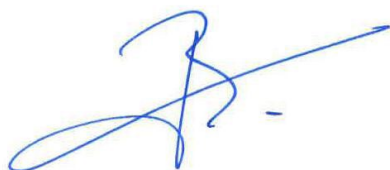
OTHER COMMENTS

We do not support requiring inclusion of some or all metrics in the auditor's report in addition to proposed PCAOB forms. Such a communication is unlikely to have any added value for investors or other users of financial reporting. In general, PCAOB needs to reevaluate the usefulness of having mandatory public reporting for engagement-level metrics, considering potential legal conflicts and confidentiality requirements.

For future proposals, we invite PCAOB to consider including a specific section in the consultation documents discussing the impact of proposals on smaller firms and firms based outside the US. Having a diverse and resilient statutory audit market with sufficient number of auditors and firms active in it is crucial for the public interest. In this context, the PCAOB's regulatory requirements should be proportionate and not act as a disincentive to smaller or non-US audit firms that are registered, or willing to register, with the PCAOB.

For further information on this Accountancy Europe letter, please contact Harun Saki on +32 (0) 28 93 33 85 or via email at harun@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).