

August 30, 2024

Ms. Phoebe W. Brown
Office of Secretary
Public Company Accounting Oversight Board
1616 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 041, *Firm and Engagement Metrics*

CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (“PCAOB” or “Board”) Release No. 2024-002, PCAOB Rulemaking Docket Matter No. 041, [Firm and Engagement Metrics](#), (the “Proposal”).

CFA Institute is providing comments on the Proposal consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Our letter is organized such that we provide overarching considerations and then comments on the firm and engagement metrics more specifically. These are all matters we believe should be considered by the Board as it deliberates the Proposal.

We note that the [2008 Treasury Advisory Committee on the Audit Profession \(ACAP\) Report](#) suggested the development of audit quality indicators (AQIs) as follows:

The Committee notes that Recommendation 3 in Chapter VIII of *this Report recommends that, if feasible, the PCAOB develop audit quality indicators and auditing firms publish these indicators*. The Committee believes *this information could improve audit quality by enhancing the transparency of auditing firms* and notes that some foreign affiliates of U.S. auditing firms provide such indicators in public reports issued in other jurisdictions.

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit <http://www.cfainstitute.org> or follow us on [LinkedIn](#) and [X](#).

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

We laud the Board for progressing [this project](#) which has been in progress for over 15 years. The [Concept Release was issued in 2015](#) after years of debate and discussion, including discussion at the PCAOB’s Standing Advisory Group (“SAG”) prior to issuance of the Concept Release. Some ten years later, the Board has responded to investor priorities in addressing this issue and has been balanced in their consideration of the topic – reducing the number of metrics from 28 in the 2015 Concept Release to 11 metrics in the Proposal. We highlight the previous and current metrics in **Appendix A** to the document – noting that while not precisely the same, the 11 metrics in the Proposal represent a subset of the previously exposed 28 metrics in the 2015 Concept Release. We also acknowledge the use of the term firm and engagement performance metrics rather than audit quality indicators – a topic which we address within the overarching considerations, where we note the firms already acknowledge similar measures as indicators of audit quality.

OVERARCHING CONSIDERATIONS

Greater Transparency Regarding the Audit: A High Priority for Decades

As an investor organization, we strongly support the efficient functioning of markets. CFA believes that reliable audited financial statements are critical to investors in making informed decisions, and therefore fundamental to the overall strength and soundness of our capital markets. As a result, the quest and demand for high audit quality among stakeholders remains constant.

Over the last two decades, CFA Institute has sought greater transparency regarding the audit with the objective of improving audit quality. Most recently, in the aftermath of the Great Financial Crisis (“GFC”), we have participated extensively in transparency efforts such as improvements in the audit reporting model, disclosure of the engagement partner, and disclosure of auditor tenure. We have written extensively about these issues in blogs and comment letters³ over the last 15 years. Over the last five to seven years, we have written about improved transparency in audits – including transparency on metrics related to audit quality. We have written to the PCAOB on this topic in a [2018 letter regarding its 2018-2022 Strategic Plan](#), a [2020 comment letter in response to its Concept Release, Potential Approach to Revisions to PCAOB Quality Control Standards](#), and in our [2022 letter to the new PCAOB Chair on investor priorities](#).

³ See comment letters and blogs which highlight our desire for improved transparency regarding the auditor reporting model and engagement partner disclosure:

- [Company Audits — Are Shareholders Getting Enough? | CFA Institute Market Integrity Insights](#)
- [PCAOB Concept Release on Requiring the Engagement Partner to Sign the Audit Report \(cfainstitute.org\)](#)
- [Balance in Public Company Audit Priorities Important to Investors | CFA Institute Market Integrity Insights](#)
- [Audit Transparency and Accountability: The Engagement Partner Should be Disclosed | CFA Institute Market Integrity Insights](#)
- [KPMG Scandal Strengthens Case to Disclose Lead Partner in Public Company Audits | CFA Institute Market Integrity Insights](#)

In our 2022 letter to Chair Williams, we noted the following related to transparency and audit quality and why it should be a priority for the Board:

- ***Audit is a Credence Good: Transparency From Those Charged with Protecting, and Compensated By, Investors Must Be a PCAOB Priority – Audits are a credence good⁴ whereby the quality of the audit is difficult for the purchaser – the investor – to assess even after purchase.*** For that reason, in our recent work related to audit reforms in the United Kingdom⁵ we have focused on enhancing transparency, oversight and accountability of those hired (e.g., management, the audit committee, auditors and audit regulators) to protect the interests of investors. We encourage the new PCAOB members to review our UK audit reform consultation responses because they provide an excellent compendium of our views on audit, audit competition, audit quality and auditor supervision and oversight.
- ***Audit Quality Indicators: A Focus for the PCAOB*** – We would also highlight the importance of audit quality indicators (AQIs) – a standard-setting agenda item we highlight below – to investors. The project on audit quality indicators has been repeatedly delayed. *There is a perception⁶ – almost mystique – that audit quality is an elusive, unmeasurable quality. We disagree.* There are many products (i.e., products that are much more vital to our lives) where measures of quality are routinely defined, measured, and monitored – and adjusted over time – at the specific product level. Audit is no different. *While firm level information, quality standards and transparency reports are important, they are not sufficient. Engagement level audit quality indicators provide management, the audit committee, the audit regulator, and the consumer (investor) with metrics to communicate and measure progress⁷. Measuring audit quality is about providing more information to investors – and the agents engaged to protect their interests – to move audits out of the realm of a credence good. What gets measured gets monitored. The delay in developing audit quality indicators is, in the view of some, an indicator of their potential to be highly effective.*

Without the transparency that can be achieved through audit quality indicators there cannot be trust and without trust there cannot be confidence by investors in the audit profession. **As investors we respect and want to work with the audit profession – as we, not the audit committee or management, are their client.**

We have a mutual interest in seeing the audit profession succeed and we do not believe the audit profession – because of a lack of transparency – **should be judged by their worst moments** – as reported in the press upon high-profile audit failures – **but by the good work members of the audit profession undertake each day.**

We have also commented regarding transparency, audit quality, and audit quality indicators and the need to move audit out of the realm of a credence good not only in our advocacy work

⁴ Colleen Honigsberg, PhD, Professor of Accounting at Stanford Law School [rightly highlighted this point](#) at a [September 9, 2021 meeting of the SEC Investor Advisory Committee](#). It is a sentiment we expressed in our letter to the UK Government during its recent audit reform efforts.

⁵ CFA Institute has responded to the UK Government’s efforts regarding improving the audit regulator ([Kingman Review](#)), competition in the audit market ([CMA Review](#)) and audit quality ([Brydon Review](#)) in 2018 and 2019 as well as the 2021 UK Government’s Department of Business, Energy & Industrial Strategy (BEIS) overarching consultation (BEIS Overall Consultation), [Restoring Trust in Audit and Corporate Governance: Consultation on the Government’s Proposals](#). In 2019, CFA Institute provided comprehensive responses to [Sir Donald Brydon’s Independent Review of the Quality and Effectiveness of Audit](#) and the [Competition and Market Authority \(CMA\)’s Statutory Audit Services Market Study](#) proposals. Jointly with the Council of Institutional Investors (CII), we also provided in 2020 [our views to BEIS on the importance of internal controls over financial reporting](#). In 2021, we provided a [response](#) to the [BEIS Overall Consultation](#).

⁶ A perception by those executing audits and those opposing moving audit out of the realm of a credence good.

⁷ As we note in the overarching consideration, *Greater Transparency Leads to Greater Accountability Across the System*, which follows, the publication of engagement-level quality indicators also provides a powerful set of internal incentives for engagement partners as well as the firm’s quality management function and leadership team.

related to audit reform in the UK Government⁸, as noted above, but in our work on this topic to the European Commission⁹.

Investor Support for Audit Quality Indicators

According to a 2017 CFA investor member survey on *Audit Value, Quality, and Priorities*, high quality and insightful communication (including audit quality indicators) to investors was the topmost assessed factor influencing investor perceptions of the value of audit. As it relates to priorities for the standard setters and regulators, developing metrics that enable effective monitoring of audit quality was considered a high priority for our members. See excerpts from the survey to this effect below:

The results in Table 1 show the factors in descending order of the average score based on respondents' rating of individual factors from 1 (not important) to 4 (very important) and excluding those with no opinion. Varied degrees of importance are assigned to the factors that can influence investors' perceptions on the value of audit. The following conclusions can be drawn from these results:

- ***Insightful communication to investors is the topmost factor influencing the perceived value of audit. The results show that the quality of firm and engagement, level communication, including the information contained within the auditor report, the disclosure of audit quality indicators applied in the auditor oversight role by audit committees and regulators, and audit firm transparency reports, were rated top in the subset of factors that influence investors' perceptions of the value of audit. This conclusion is affirmed by the responses to the question on importance of factors considered in assessing audit quality (see Section 2, Table 3), which show the importance of communication that enables judgment on audit quality as it influences the value investors derive from audit.***

| Value of Audit Factors | Respondents | 1=Not imp | 4=Very imp | Avg |
|---|-------------|-----------|------------|------|
| Quality of information contained within the auditor report | 211 | 2.4% | 73.0% | 3.65 |
| Disclosure to investors of the audit quality indicators that are monitored by audit committees and/or regulators | 210 | 3.3% | 57.1% | 3.48 |
| Audit firms' communication to investors (e.g., published audit firm transparency reports) | 211 | 4.7% | 58.8% | 3.40 |
| Expanded use of data analytics and artificial intelligence while conducting audits | 211 | 5.2% | 29.9% | 3.02 |
| An expansion of the current scope of audit and assurance services | 211 | 8.1% | 30.3% | 2.91 |
| Leveraging technology, network alliances, and process efficiency to reduce the costs of conducting audits | 211 | 10.4% | 22.7% | 2.77 |
| Audit pricing that is either comparable or at a premium relative to the pricing of other advisory, certification, or quality assurance services | 209 | 13.9% | 16.7% | 2.66 |

1=Respondents who rated the factor as "Not important"; 4= Respondents who rated the factor as "Very important"; Avg = Average rating of 1-4 score, excluding respondents who had no opinion.

⁸ Id., Footnote 5.

⁹ CFA Institute [provided a response](#) to the European Commission's, *Consultation Document Strengthening Of The Quality Of Corporate Reporting And Its Enforcement*, which seeks comment on reforms related to corporate governance, auditors and the regulators who supervise them.

From the results in Table 3, the following conclusions were drawn:

- *Strengthening independence of audit process is rated as the topmost priority. The topmost-rated priorities in this survey were standards for auditor independence and the need for a fully independent audit standard-setting process. This finding underpins the importance and desirability of auditor independence and concerns about any institutional and business model features, as well as audit process factors that may undermine auditor independence.*
- *Developing ability to monitor audit quality is a high priority. Developing and monitoring audit quality indicators was one of the top-rated priorities, affirming the importance of a sustained focus on the development of actionable audit quality indicators.*

Table 3: What should be the audit standard-setter and regulator priority?

| Issue or Topic | Total | High Priority | Medium Priority | Low Priority | Avg Score | Rank by Avg Score |
|--|-------|---------------|-----------------|--------------|-----------|-------------------|
| Standards for auditor independence | 210 | 86% | 10% | 1% | 2.88 | 1 |
| Independence of the governance of audit standard-setting bodies | 210 | 78% | 17% | 2% | 2.78 | 2 |
| Auditor consideration of noncompliance with laws and regulations | 211 | 73% | 20% | 3% | 2.73 | 3 |
| Developing and monitoring robust audit quality indicators | 209 | 70% | 23% | 2% | 2.71 | 4 |
| Audit standards for accounting estimates | 209 | 68% | 24% | 3% | 2.68 | 5 |
| Going concern judgments and disclosures | 211 | 67% | 25% | 4% | 2.65 | 6 |
| Audit standards for subsidiary audits | 210 | 57% | 30% | 6% | 2.56 | 7 |
| Wider adoption of International Standards of Audit (ISAs) | 210 | 52% | 27% | 8% | 2.50 | 8 |
| Ascertaining appropriate level of assurance on non-GAAP financial measures (NGFMs) | 209 | 51% | 33% | 8% | 2.46 | 9 |
| Assurance or some other level of auditor comfort on other financial and nonfinancial information | 210 | 44% | 40% | 8% | 2.39 | 10 |
| Mandatory rather than optional requirements for shareholder ratification of auditor appointment | 209 | 39% | 35% | 15% | 2.26 | 11 |
| Requiring shareholder voting for audit committee members | 210 | 40% | 35% | 18% | 2.24 | 12 |
| Assurance or some other level of auditor comfort on preliminary announcements | 210 | 31% | 46% | 12% | 2.21 | 13 |

Respondents had four choices: low, medium, or high priority, or no opinion. The weighted average score was determined by assigning 1 to low priority, 2 to medium priority, and 3 to high priority, and excluding respondents who had no opinion.

Accordingly, we support efforts to develop standardized audit firm and engagement metrics that will reduce the current information asymmetry and give investors greater insight into the audit process and measures of audit quality.

Developing the ability to monitor the audit process and ultimately draw conclusions about the reliability of both the audit and the auditor is a high priority for our investors. Without these metrics, the lack of transparency retains the status quo.

Opponents to the Proposal¹⁰ indicate these metrics are not something investors have sought; not needed; not meaningful; and are not obviously usable by them – in addition to noting they only add noise to the public company market for audit services. Our long-standing survey indicates that such information is a priority of investors for regulators such as the PCAOB which is only secondary to independence and non-compliance with laws and regulations (“NOCLAR”).

We would also note that if auditors seek to have their work judged as something other than a commodity – measured by price and the very public press surrounding their failures – they must provide information, other than fees, for investors – their actual clients – to judge their work.

¹⁰ See Footnotes 18 and 29 which follow.

***From Audit Quality Indicators to Firm and Engagement Performance Metrics:
The Firms Themselves Acknowledge These Types of Measures Are Indicators of Audit Quality***

We concur with the decision to refer to the metrics in the Proposal as “firm and engagement metrics” as opposed to “audit quality indicators (AQIs)” as it removes the previous articulated objection – by those opposing the indicators in the 2015 Concept Release – that the metrics did not and had not been demonstrated to correlate with audit quality and that they would therefore be misleading (i.e., as to conclusions to be drawn from these metrics) for users of financial statements.

We acknowledge that assessing audit quality is a highly complex judgement, but it is not impossible. And the fact remains that investors are severely limited in the information they receive regarding the audit. Investors must, in addition to general oversight of the board, assess audit quality, consider whether to elect or re-elect directors that serve as audit committee chairs or members, and ratify the audit committee’s choice of auditor with very limited information – a topic we discuss and illustrate in more detail in the next overarching consideration.

Information to be provided via the proposed firm and engagement metrics such as:

- the years of experience of audit personnel;
- percentage of audit hours attributable to more senior members of the audit team;
- the extent to which audit specialists are employed on an engagement; and
- the amount of audit work completed at interim versus at year-end;

all provide important information that would assist investors, audit committees, and other stakeholders in evaluating the sufficiency and efficacy of the audit process.

We believe these metrics are useful to investors because several of the Big 4 audit firms disclose these types of metrics on a voluntary, firm-wide basis in either their Transparency Reports or their Audit Quality reports¹¹. ***The firms themselves suggest a link between these metrics and their efforts to improve audit quality.***

¹¹ We reviewed the following transparency and audit quality reports of the following U.S. Big 4 Firms, the links of which are provided below:

| | |
|--|--|
| <p><u>PwC</u> The 2023 Transparency Report: PwC Audit Quality Report: PwC</p> | <p><u>KPMG</u> 2023-Transparency-Report-Apr-2024.Pdf (KPMG.com) Audit Quality Report (KPMG.com) Audit-Quality-Report-2023.Pdf (KPMG.com)</p> |
| <p><u>EY</u> 2023 EY US Transparency Report EY - US Our Commitment to Audit Quality — Ernst & Young LLP’s 2023 Report EY - US</p> | <p><u>Deloitte</u> 2023 Transparency Report Deloitte US Audit Quality Report Deloitte US</p> |

For example, PwC states the following in its *2023 Audit Quality Report*:

In addition, we compare and contrast the data for audits with and without deficiencies to identify whether certain factors appear to correlate to audit quality. **Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same sector as the client, the number of years that key engagement team members have been on the engagement, the number of other audits the engagement partners are involved in, whether the engagement was subject to a pre-issuance review, and the timing of when the audit work was planned and performed.** Our goal is to understand how audits without deficiencies may differ from those with deficiencies. The potential causes we identify through our analyses are used to identify enhancements that may be useful to implement across all or certain elements of our practice **and improve our system of quality management.**¹²

Similarly, KPMG states in its *2023 Audit Quality Report*:

[a]udit quality indicators include ratio of partner hours to total team hours and manager hours to associate hours, among others.¹³

The KPMG report also states that conducting work earlier in the audit cycle (i.e. at interim) is a key audit initiative.

We note, however, that the measures included in such transparency and audit quality reports are not consistent and comparable in their computation, presentation and inclusion nor are they provided at the engagement level – the level where they will be most useful to investors. The metrics in the Board’s Proposal enhance consistency and comparability at the firm as well as provide the information at the engagement level where they are most useful to investors and where the firm level metrics can be used to provide broader context. We seek and support such codification.

Now that the Board has set forth these metrics with the more neutral term, “Firm and Engagement Metrics,” we see respondents objecting that these metrics should not be disclosed because they are expressly *not* labeled as AQIs.

While constituents can debate endlessly as to what extent, and how precisely, these metrics are correlated with audit quality, we believe that such a debate will only result in a needless delay in advancing this initiative, which is to provide a robust set of disclosure requirements which will ultimately promote informed governance and investment decision-making. Disclosure needs to begin and then, as time passes, investors, board members and researchers can draw inferences from them. Without starting disclosure, the debate cannot be advanced or settled.

¹² See PwC Audit Quality Report, emphasis added, page 56. (See link at Footnote 11.)

¹³ See KPMG Audit Quality Report, page 17. (See link at Footnote 11.)

A Reminder: What Investors Are Provided Regarding the Audit & Why Investors Need More

We concur, as our comments above suggest, with the Board’s observation that both investors and audit committees receive almost no information regarding the services performed by auditors.

What Investors Are Provided Regarding the Audit –When this topic is discussed, many – including most auditors – don’t realize or recognize what investors actually see of the audit process. Here is what investors are provided related to the audit:

- ***Audit Opinion*** – All investors see at the engagement level in the Form 10-K is an audit opinion (including, or separately, an opinion on internal controls). Even after the transparency measures made after the GFC, the audit opinion only includes a description of the critical audit matters (“CAMs”) identified (i.e., of which there are approximately 1.3 CAMs per company) along with the procedures performed on those CAMs. The results obtained from those procedures are not disclosed even though such a disclosure is explicitly permitted by the PCAOB standard and requested by many investors and other users of audit reports. The name and tenure of the auditor, as well as the principal geographic location of the auditor/partner, is also disclosed in the audit report.
- ***Audit Participants*** – Investors can also identify the audit partner and other firm participants – if they know to go to the PCAOB’s Form AP – as audit partner name is not included in the audit report.
- ***Audit Committee Report, Audit Fees & Auditor Ratification Vote*** – Within the proxy, investors are provided with the audit committee report – which mostly describes what was done by the audit committee, not the results of their work. The audit fee – along with audit-related fees, tax and other fees are also provided.

There is no information provided regarding the auditor’s interim work.

This limited information places heavy reliance on the name of the firm being a Big 4 auditor as there is little other information to evaluate the quality of the audit or auditor. This creates herding behavior by audit committee members toward the selection of the Big 4 as the auditor to protect or validate their decision-making in an environment where the audit and auditor are credence goods.

With this information investors are asked to not only ratify – via a *non-binding* vote – the audit committee’s decision to retain the auditor, but also to cast their votes for audit committee members and chairs.

In [Appendix B](#) we extract and provide several examples (i.e., one large client from each of the Big 4 firms) of the information investors receive related to the audit in the Form 10-K, proxy and the PCAOB's Auditor Search. Below is a table summarizing key elements of information drawn from the detail in [Appendix B](#).

| COMPANY | AUDITOR | AUDITOR TENURE | AUDIT PARTNER | CRITICAL AUDIT MATTERS | FEES (\$'s in millions) | | | | |
|------------|---------------|---------------------|-------------------------------------|---|----------------------------|---------------|-----|-------|---------|
| | | | | | Audit | Audit-Related | Tax | Other | Total |
| Apple | Ernst & Young | Since 2009 | Kevin Frank Asher | Uncertain Tax Positions | \$ 19.7 | 1.8 | 3.9 | 13.0 | \$ 25.4 |
| Citigroup | KPMG | Since 1969 | David John Reavy | Assessment Of the Fair Value of Certain Level 3 Assets and Liabilities Measured on A Recurring Basis Assessment Of the Allowance for Credit Losses Collectively Evaluated for Impairment Evaluation of goodwill in the Wealth, Markets and U.S. Personal Banking (USPB) reporting units | \$ 82.4 | 21.7 | 5.9 | 0.0 | \$110.0 |
| ExxonMobil | PwC | Since 1934 | Charles Chang | The Impact of Proved Developed Oil and Natural Gas Reserves on Upstream Property, Plant and Equipment, Net | \$ 34.1 | 7.2 | .6 | 0.0 | \$ 41.9 |
| MetLife | Deloitte | Since at least 1968 | Taryn Colleen Lynch | Fixed Maturity Securities Available-for-Sale — Fair Value of Level 3 Fixed Maturity Securities Insurance Liabilities — Valuation of Future Policy Benefits for Long-Term Care Insurance Market Risk Benefits — Valuation of Market Risk Benefits for MetLife Holdings | \$ 59.4 | 5.4 | 4.3 | .1 | \$ 69.2 |

Why Investors Need More – Investors need, as our survey suggests, additional information because:

Proxy Voting Decisions Are Required with Very Limited Information – [Appendix B](#), and the table therein as also presented above, demonstrate that in the current audit market, buyers of audit services – ultimately investors – have very limited information and transparency regarding the nature, sufficiency and efficacy of the audit yet they are asked to ratify the audit committee's decision regarding the selection or reappointment of the auditor – and to vote on audit committee

members meant to protect their interests. Investors need more information to make an informed vote. Currently, investors are asked to vote but their vote – because of a lack of information – is entirely reliant on the audit committee.

Proxy Advisory Guidelines Highlight a Need for More Information: Decisions Not to Ratify an Auditor Should Not Be After Restatements & Losses Have Been Incurred – Proxy advisory services annually publish voting guidelines¹⁴ and most large investment organization stewardship functions¹⁵ publish their own voting guidelines.

Review of these proxy voting guidelines suggest investors should consider for further discussion in making their voting decision matters factors such as:

- independence issues;
- aggressive accounting policies;
- a high proportion of non-audit to audit fees;
- excessively low audit fees;
- statements by the audit committee regarding their work; and
- restatements.

¹⁴ [ISS and Glass Lewis Release 2024 Proxy Advisor Guidance | 01 | 2024 | Publications | Insights & Publications | Debevoise & Plimpton LLP](#)

- [2024-US-Benchmark-Policy-Guidelines-Glass-Lewis.pdf \(glasslewis.com\)](#) (Pages 20-21 and 48-49)
- [US-Voting-Guidelines.pdf \(issgovernance.com\)](#) (Pages 22-24) [Americas-Policy-Updates.pdf \(issgovernance.com\)](#)

¹⁵ See Blackrock’s voting guidelines at: <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf>. There they note the following with respect to the audit:

Auditors and Audit-Related Issues

BIS recognizes *the critical importance of financial statements to provide a complete and accurate portrayal of a company’s financial condition*. Consistent with our approach to voting on directors, ***we seek to hold the audit committee of the board responsible for overseeing the management of the independent auditor*** and the internal audit function at a company.

We may vote against the audit committee members where the board has failed to facilitate quality, independent auditing. We look to public disclosures for insight into the scope of the audit committee responsibilities, including an overview of audit committee processes, issues on the audit committee agenda, and key decisions taken by the audit committee. We take particular note of cases involving significant financial restatements or material weakness disclosures, and we look for timely disclosure and remediation of accounting irregularities.

The *integrity of financial statements depends on the auditor effectively fulfilling its role*. To that end, *we favor an independent auditor*. In addition, ***to the extent that an auditor fails to reasonably identify and address issues that eventually lead to a significant financial restatement, or the audit firm has violated standards of practice, we may also vote against ratification.***

From time to time, shareholder proposals may be presented to promote auditor independence or the rotation of audit firms.

Review of the guidelines suggest significant reliance on the audit committee and that they consider voting against auditors after restatements. This shows their information is limited and their decision-making to not ratify is limited to after a problem has emerged.

Many of these items to consider are more the responsibility of management (i.e., aggressive accounting policies) than of the auditor alone. Investors have no ability to evaluate auditor independence considerations. Other factors for consideration – such as the level or relative level of fees – are to be made without any context to assess the reasonability of fees, with information such as hours. The metrics in the Proposal would provide some of such context. Still other considerations, such as restatements, are voting considerations only made after errors have occurred, the audit has failed, and investors have likely lost money.

We note Glass Lewis supports the increased transparency brought about by critical audit matters, disclosures of audit partner name and the tenure of the auditor. That said, review of the information provided to investors relative to the guidelines suggest that transparency remains to be insufficient. Investors are entirely devoid of information to make an independent and informed decision regarding their vote to ratify the audit committee’s auditor recommendation and more importantly – as the Blackrock guidelines highlighted above illustrate – to hold the audit committee members to account in the performance of their duties. Investor votes, therefore, are less than fully informed in the case of the audit committee, and are not only non-binding, as it relates to the auditor ratification, but without purpose. Further, most failures to ratify the auditor occur after the restatement of financial statements or the identification of other financial irregularities – resulting in an ex-post, rather than an ex-ante, assessment of the quality of the auditor’s work. We believe it is important to provide information for investors to make ex-ante decisions on the audit committee members and the auditor.

Proxy Voting Disclosures and Decisions Are Material and the Subject of the Supreme Court’s Decision on the Definition of Materiality

Use of Information by Investors – Some opposing the metrics suggest investors (i.e., particularly passive investors or ETFs) won’t use these metrics. We’re unsure how such non-investor opponents are confident in the view before investors have been provided the metrics.

What those making this argument fail to recognize is that while passive portfolio managers and analysts may not use this information – just as they may not use financial statements and perform active fundamental analysis as they are replicating an index – their stewardship counterparts **will** use the information in their voting decisions on audit committee members and auditors.

One need only look at the recent debate regarding the exercise of voting rights related to environmental, social and governance (“ESG”) matters by investment organizations sponsoring passive funds to recognize that voting decisions of all types matter¹⁶. This debate, along with

¹⁶ Consider for example articles such as the following which individually and collectively highlight the interest and debate regarding use of passive investors’ votes by investment organizations related to ESG matters.

- [Corporate Democracy and the Intermediary Voting Dilemma \(harvard.edu\)](#)
- [Anti-ESG movement spawns new fund in battle against ETF giants \(investmentnews.com\)](#)
- [Empowering investors through Voting Choice \(blackrock.com\)](#)
- [Votes for Sale! A Startup Is Letting Shareholders Sell Their Proxies - WSJ](#)
- [The Big Three and ESG: A Guide to BlackRock, State Street and Vanguard Proxy Voting Policies and Guidance on Key ESG Issues \(weil.com\)](#)

accusations of “green smuggling”¹⁷ of investor votes and the push for, and rise of, pass-through voting – highlight the fallacy of the argument that investors (i.e., or proxy advisory firms on their behalf) will not use this information (i.e. as we highlight in the example below). Voting is done by passive fund sponsors, and they are the largest owners of America’s public companies.

Materiality – Additionally, some opponents to the Proposal – most notably the Chamber of Commerce¹⁸ – do not support the firm and engagement reporting metrics on the grounds of materiality – indicating the metrics and the Proposal broadly do not meet the Supreme Court’s materiality standard as set forth in *TSC Industries Inc. v. Northway Inc.* (“TSC Case”) in which information is considered material if there is “a substantial likelihood that the...fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”

We absolutely disagree with these opponents’ conclusion that the disclosure of these metrics is not material. We do not believe they are in a position to reach such a conclusion on behalf of investors when they do not represent investors’ interests and before any such information is provided to investors.

We also believe that in making this materiality argument, the auditing firms and the Chamber are making an argument that their work, which is reflected via the metrics, is not material and that audits are therefore not material. This is disheartening and potentially harmful to their profession and business models.

What those making this lack of materiality argument fail to recall when they cite the TSC Case is that:

- 1) the case – and the determination of materiality – was based upon proxy contents and proxy voting,
- 2) voting decisions are included in the definition of materiality,¹⁹ and

¹⁷ Green smuggling is a term used – mostly by those opposing ESG initiatives – to describe the use of votes of underlying passive fund investors to promote the fund sponsors ESG agenda rather than the underlying investors’ financial return objective.

¹⁸ We would note that the [Chamber of Commerce’s comment letter on this Proposal](#) states:

*The Chamber has long held that the lodestar for regulatory disclosure requirements should be whether incremental information satisfies the traditional test of materiality set forth by the Supreme Court in the seminal case of TSC Industries Inc. v. Northway Inc. **The proposed disclosures fall woefully short of the required materiality threshold.** Instead, the proposed disclosures would overload audit committees and investors with a large set of complex data not sought, not needed, not meaningful, and not obviously usable by them. The proposed disclosures would only add noise to the public company market for audit services.*

¹⁹ Footnote 4 of [Staff Accounting Bulletin 99](#) states:

The Supreme Court has held [in TSC Industries Inc. v. Northway Inc.] that a fact is material if there is –

3) investors are being asked to cast votes on audit committee members and to ratify the auditor.

The information they say is not material is to be used in support of making that voting decision. And, as we show above, investors are currently being requested to make such a decision with limited decision-useful information.

The Proposal would provide a wealth of important new information to investors and would significantly change the mix of total information available to investors – and audit committees – regarding the audit at both the engagement and the firm level when making their auditor selection and auditor ratification proxy voting decisions – and to investors in casting votes related to audit committee members. As such, it’s hard to conclude the metrics would not be material.

We note that the Council of Institution Investors includes a variety of factors within their corporate governance guidelines for investors to consider today when casting their vote for the audit committee members and auditor²⁰. These proposed metrics, when read in the context of their existing requirements, would clearly be useful, additive and material to investors.

a substantial likelihood that the . . . fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.

Chair Lee in her speech, [Living in a Material World: Myths and Misconceptions about “Materiality”](#), regarding ESG matters, notes that materiality includes not only the investment but also voting decisions of investors: *Finally, investors, the arbiters of materiality, have been overwhelmingly clear in their views that climate risk and other ESG matters are **material to their investment and voting decisions**.*

²⁰ [Section 2.13\(a\) of the Council of Institutional Investors Corporate Governance Policies](#) states:

Audit Committee Responsibilities Regarding Independent Auditors: The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company’s independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

- the auditor’s tenure as independent auditor of the company
- the presence of former audit partners, managers or senior officers in financial reporting or executive positions at the company, or former financial executives of the company in lead offices performing audit work on the company
- directors’ relationships with the auditor, including through directors’ employer and service on other audit committees
- the proportion of total fees attributable to non-audit services, and a determination of why these services could not have been provided by another party to safeguard the auditor’s independence
- the completeness, timeliness and clarity of the annual letter to the audit committee discussing the independence of the auditor
- the significance of the audit and total fees to the lead office and engagement partner performing the independent audit
- the quality and frequency of communication from the auditor to the audit committee
- the experience, expertise and professional skepticism of the audit partner, manager and senior personnel assigned to the audit, and the extent of their involvement in performing the audit
- the incidence and circumstances surrounding a financial restatement, whether at the company or at another company audited by the same firm

Those making these opposing arguments are drawing the conclusion that these metrics are not material without recognition that:

- 1) investors are, as our surveys show, seeking such information;
- 2) the information is clearly additive to investors current mix of information;
- 3) passive fund proxy voting is powerful; and
- 4) they are drawing a conclusion without having provided any metrics to investors and allowing them to be the arbiter of materiality – rather than investors as required by the TSC Case.

The engagement and firm level metrics in the Proposal have the capacity to make the investors vote on ratification of the auditor – and the vote on audit committee members – substantially more meaningful.

Example of the Power of Investor Vote on Auditor: Change in Auditor After Proxy Advisor Advises Against Ratification & Lower Than Previous Investor Ratification of the Auditor – Some opposing the firm and engagement metrics highlight the near unanimous ratification of auditors by investors as an indication that there is no need for a change or that investors’ votes ratifying the auditor are not meaningful. Our view, however, as we highlight above, is that this high rate

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- the incidence and circumstances surrounding the reporting of a material weakness in internal controls by the auditor
 - the clarity, utility and insights provided in the auditor’s report and the auditor’s letter to management in relation to the audit
 - the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm
 - enforcement actions (in process or completed), inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators
 - the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor’s report
 - reasons cited by other companies for discontinuing their engagement of the same audit partner and/or auditor
 - the results of annual auditor performance reviews by audit committee members
 - the availability of a replacement for the existing auditor with the requisite experience and staffing required by professional standards to perform a quality audit
 - the auditor’s position on whether it requires the inclusion of an arbitration clause that would place limitations on investors’ ability to recover damages they have incurred

Investors are the “customers” and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.

The audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities. The report should include an explanation of how the committee carries out its auditor compensation responsibilities in consideration of audit quality objectives. The report should include a fact specific explanation for not changing the company’s auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service, or if the auditor is retained despite knowledge of substantive deficiencies identified during the committee’s review of the considerations described above.

of ratification comes based upon a reliance on the audit committee and the lack of information to make a different, more informed, decision (on the audit committee members and auditor) in advance of any evidence of audit failure. In our view, audit quality and auditor selection should not be evaluated, measured, and voted upon only after audit failures – which is when most auditors are not ratified.

We believe that investors' votes on auditors can matter and can influence the audit committee to take action they otherwise would not have taken. They can also impact the votes on audit committee members. Consider the example related to GE.

In 2018, Glass Lewis and ISS took the unusual stance of recommending that investors do not ratify reappointment of KPMG as GE's auditor – despite the audit committee's recommendation to ratify KPMG – after a series of high-profile accounting irregularities at the company and a Department of Justice investigation. This position by the proxy advisory services was reported on, at the time, by the Wall Street Journal – [GE Urged to Dump Auditor KPMG After 109 Years by Proxy Advisers](#) – because it was so rare. The GE audit committee which had advised voting “for KPMG” put the audit out to bid after KPMG received a significantly lower ratification percentage (65%²¹) vote by investors²². In 2020 GE changed auditors to Deloitte: [GE to change auditor to Deloitte from KPMG, starting 2021](#) and [GE Hires a New Auditor. Here's Why — and What It Means for the Stock. - Barron's \(barrons.com\)](#).

What this example highlights are that the audit committee – despite knowing the accounting irregularities at hand – did not recommend changing the auditor. The proxy advisory services recommended – in accordance with their guidelines – that KPMG not be ratified, and a significant number of investors followed their own guidelines, in making their votes against the audit committee's recommendation to ratify KPMG.

The example also, however, highlights, unfortunately, that the audit committee did not act proactively in accordance with the publicly established proxy voting guidelines of large investors or proxy advisory services, and the audit committee needed a nudge – but only on ex-post basis – through the investor voting process.

²¹ KPMG received 2 million votes opposing their ratification and 4 million supporting their ratification – a 2:1 vote in support. In the prior year it was 27:1 vote in support of KPMG. The substantial reduction in support required the audit committee to listen to investors – despite this still being a high rate of ratification.

²² [Section 2.13\(f\) of the Council of Institutional Investors Corporate Governance Policies](#) states:

Shareowner Votes on the Board's Choice of Outside Auditor: Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. In practice, if the board's selection fails to achieve the support of a significant majority, such as 80%, of the for-and-against votes cast, the audit committee should: (1) solicit the views of major shareowners to determine why a meaningful minority of shareowners dissented from ratification and (2) take the shareowners' views into consideration and reconsider its choice of auditor.

Addressing the Narrative: Metrics Circumvent Corporate Governance – Some opposing the proposal suggest that, by asking for such firm and engagement performance metrics, investors are seeking to circumvent the corporate governance process performed by the audit committee. Nothing could be further from the truth. Investors are seeking to enhance the work of the audit committee in ensuring a high-quality audit is performed and overseen on their behalf²³. Investors are the principal; the audit committee is the agent and as in any principal-agent relationship oversight tools such as metrics are necessary elements of the relationship.

We would also note that other opponents to the Proposal have made the spurious argument that these metrics are not useful because the evaluation of the auditor by audit committees is a continuous process, and these metrics would be reported only once a year, with a delay of up to 35 days after the audit is completed. While we certainly would not object to having the metrics reported more frequently, or on a timelier basis, we would be surprised if this were the outcome that was being sought by these opponents to the Proposal. We would also note that the financial results for companies are delivered with the same, or a more significant delay, to investors. Still further, the meaning and usefulness of this information is not simply its immediate discrete disclosure but the trends in the information within and between companies over time.

Audit committees, like investors, have no access to audit workpapers nor an ability to observe the auditing work performed. While the audit committees may have the opportunity to question auditors – unlike investors – on their procedures and findings, they are reliant on communications from the auditor regarding the company’s audit issues and the quality of the audit being performed. The audit committee’s principal tool is that of inquiry – not observation – and inquiry, in audit parlance, is the weakest form of audit evidence.

Because the audit committee is constrained in its ability to obtain information, they – like investors – could benefit from having additional context when making important decisions regarding hiring, compensating, overseeing and, if necessary, terminating the company’s independent auditor.

The audit committee’s work – and the evaluation, rather than uninformed reliance on it by investors – is fundamental to the efficient functioning of capital markets. As a result, it is important for the information to be provided to both the audit committee, as they have direct access to the auditors, and to investors, because they need to hold the audit committee accountable. The metrics are simply a means of creating this accountability across the system (i.e., as we address more fully in the next overarching consideration) and are why they are sought and supported by investors. The Blackrock guidelines referenced previously highlight this very point.

More standardized and consistent information at the engagement level, and contextualized by the firm level metrics, will make decisions regarding the audit, the auditor and the audit committee more useful. The GE example above highlights the need for such greater accountability. For

²³ Id., Footnote 20.

these reasons, we reject the notion that these metrics are meant to circumvent corporate governance. We note that the Council of Institutional Investor guidelines²⁴ highlight that information is additive to their corporate governance – not a means of circumventing it.

Metrics Provide Context Other Than Simply Fees & Enable Investors to Mitigate Audit Committee Member Fee Pressure – Investors have heard too many times audit committee chairs or members laud their ability to reduce or squeeze auditors on their fees. Audit committee members – incentivized to ingratiate themselves to management – see reducing audit fees as a means to gain such favor with management. This is not necessarily in the best interest of investors they are meant to serve and is not something investors seek from audit committee members – currently or through these metrics.

Investors want audit committee members to focus on audit quality not solely on audit fees. Investors know that you get what you pay for in the audit and investors want auditing to be a viable, reasonably profitable business that attracts talent and performs high-quality work. These metrics afford investors the ability to monitor the audit committees' work in this regard and provide context for the fee information.

Presently, with just the amount of fees in the proxy, investors have no real context to evaluate the audit committee's work and decision-making. The metrics afford the audit committee and investors at least some measure of the sufficiency and efficacy of the audit process.

Auditors say they want to be seen or evaluated as something other than a commodity business evaluated based upon price. For this to happen, auditors need to provide investors with information such that they can value the work of the auditor – just as they evaluate and value the business and the work of management.

Inclusion of the Metrics in the Proxy & Digital Tagging of Metrics – We are also requesting the SEC – as well as the NYSE and NASDAQ – to require inclusion of the proposed metrics in the audit committee report along with the fees so that the fees are contextualized, and investors are aware of the information in context and without the requirement to search for the information on the PCAOB website.

We would further suggest that the metrics provided by the firm, whether they be firm-level or engagement-level, should be provided in a digital format (i.e., in Inline XBRL) to simplify consumption, comparison against peers, comparison against that firm's metric disclosures, and to measure engagement-level and firm-level metrics through time. Some sophisticated investors use digital disclosures made by companies in XBRL directly, many others use specialist vendor offerings that consume and normalize these disclosures, virtually all investors use the XBRL indirectly by consuming data from information providers who themselves are so informed. The insufficiency of information regarding the audit and the auditor causes audit quality to remain insufficiently evaluated, ultimately risking suboptimal investment decisions, and thereby

²⁴ Id., Footnote 20.

negatively affecting the capital markets. For a market to be competitive, not only does an efficient market need numerous buyers and sellers but they also need them to be well informed.

Greater Transparency Leads to Greater Accountability Across The System: Public Disclosure is Essential for This Accountability

As we described in the preceding section, the introduction of the mandatory reporting of firm and engagement metrics, as outlined in the Proposal, will provide greater transparency to both investors and audit committees and enhance accountability regarding the audit with respect to these key stakeholders. While the intent of the Proposal is to provide metrics that will primarily provide information useful to investors in their investment and proxy voting decisions, we also recognize that such metrics could potentially be informative to other stakeholders across the system²⁵.

Audit Regulators – As noted previously, the firm transparency and audit quality reports currently provide only firm level information in an ad hoc and inconsistent manner. The Firm Reporting Proposal²⁶ highlights research that suggests that such reports have improved audit quality – particularly in jurisdictions where they are not simply required by law but also voluntary.

The metrics in the Proposal will make the information more uniform across the firms and engagements and will also benefit the Board and PCAOB in their evaluation of the firms and their engagements as they undertake their inspections program and standard-setting initiatives, thereby enhancing both its enforcement and rule-making agendas.

We note that some respondents have raised the concern that requiring audit firms to disclose these metrics would somehow undermine confidence in the PCAOB and/or would suggest a lack of trust and accountability for audit committees and others with direct responsibility for audit

²⁵ The [2015 Concept Release](#) highlights on page 18 the primary and other potential users of AQIs.

| A. Users of AQIs: The Board believes that the potential primary users and range of uses of AQIs can be summarized as follows: | |
|--|---|
| Potential AQI User | Potential Use (Decisions AQIs Can Influence) |
| Audit Committees | <ul style="list-style-type: none"> Assess reporting risk and audit quality Retain and compensate auditors Oversee auditors |
| Audit Firms | <ul style="list-style-type: none"> Assess and manage risk Improve quality control efforts and, ultimately, audit quality Identify root causes of audit deficiencies and remediate weaknesses |
| Investors ²² | <ul style="list-style-type: none"> Assess reporting risk Vote shares |
| PCAOB (and other Regulators) | <ul style="list-style-type: none"> Inform policy-making Assist root cause and quality control projects Stimulate public discussion of, and market demand for, quality |

Other users of AQIs could include company management, the business press, academics, and the general public. As noted above, the indicators are intended to

²⁶ See PCAOB’s Release No. 2024-003²⁶, PCAOB Rulemaking Docket Matter No. 055, [Firm Reporting](#).

oversight. We fail to see how the PCAOB, by exercising its rule-making authority and requiring more disclosure from its member firms via the finalization of this Proposal – rather than continuing to rely on voluntary disclosures by the audit firms that vary greatly from firm to firm and – in many instances only provide qualitative information, would be demonstrating anything other than its strength and commitment to faithfully executing their responsibilities and working to improve audit quality and trust in the audit market. Based on this faulty reasoning, one would have to believe that any rulemaking initiative by a regulator would automatically undermine confidence in the regulator and the organizations it regulates.

The Audit Profession – The audit firms themselves would also benefit as the publication of engagement-level quality indicators, in addition to more uniform firm-level metrics, also provides a powerful set of internal incentives for engagement partners as well as the firm’s quality management function and leadership team.

Additionally, access to information about their peers and standardized information about themselves and their peers could be used in designing, implementing, monitoring, and remediating their systems of quality control.

What Gets Measured, and Disclosed, Gets Monitored – As with other disclosure initiatives²⁷, we have found that greater transparency ultimately benefits all market participants and has the impact of creating more efficient and fair markets. We have found that what gets measured and disclosed gets monitored and enhances accountability across the ecosystem of stakeholders. As Supreme Court Justice Louis Brandeis famously stated: “sunlight was the best disinfectant,” enshrining a principle of transparency as a cornerstone for open democracy and good governance.²⁸ The same is true in corporate governance. ***This is why we believe that public disclosure of both the firm and engagement metrics is an important improvement.***

As the last several pages highlight, ***there is a great deal of reliance on inquiry and conversation – by investors and audit committees – but little disclosure of information which enables informed decision-making by them or regulators. Transparency around such metrics creates behavioral change in all participants in the audit process – the auditor, the audit committee, the regulator, investors and even other audit firms. This enhances trust.***

Perfection in Metrics Should Not Be the Enemy of Progress: Investors Use Metrics, Non-GAAP Measures and KPIs Every Day & They are Never Perfect or Perfectly Comparable – Investors are experienced in the use of a wide array of performance metrics including non-GAAP measures and key performance indicators (KPIs). Standardization and contextualization metrics provide investors with a consistent dataset for analysis over time and for comparison between companies and firms. Investors are well aware that metrics of any kind are never perfectly comparable between companies or over time – it is the analytical work they are trained to undertake. Investors also regularly deal with management’s desire to create bespoke metrics to convey they are unique.

²⁷ Consider for example: pension, leases, fair value and stock-based compensation disclosures.

²⁸ [Brandeis And the History of Transparency: Sunlight Foundation](#)

We know constituents, particularly those that oppose the Proposal, have differing opinions on the precise calculation, content, and usefulness of these measures.

With that knowledge, ***we strongly recommend that the Board not delay this Proposal in the quest to develop a set of “perfect” metrics***, as we find that the real usefulness of such information is in providing investors with a relatively standardized data set which facilitates analysis and comparison over time and across companies – and which can be refined over time. ***It has been over a decade of discussing the metrics and without starting, the conversation and the refinement of the metrics will never advance.***

Investors recognize that the firm and engagement metrics will always be messy at the margins. The nature of the audit process and audit firms, however, is such that the proposed firm and engagement metrics have a greater propensity for comparability than many companies whose financial results investors already analyze.

Our experience suggests that the value of the proposed disclosures would likely increase over time as users are able to aggregate multiple data points, make comparisons, and observe trends.

We believe that requiring a set of standardized data is more valuable than the ad hoc, individualized disclosures that some firms have made on a voluntary basis. Mandatory public disclosure would also ensure that the information would be accessible to all stakeholders, so that relevant information could be readily evaluated.

Addressing the Narratives: Metrics Are Not Needed and Will Overload, Confuse and Mislead Investors – The same opponents – notably the Chamber of Commerce²⁹ – to the firm and engagement performance metrics based upon the aforementioned materiality argument also argue that audit committees and investors will be overloaded by information, which is not needed, complex, not meaningful, not usable and confusing to them.

Lack of Perfect or Perfectly Comparable Metrics Will Confuse or Mislead Investors – In the section above, we address the narrative against metrics being confusing or misleading to investors because they are either not perfect or not perfectly comparable.

Metrics Will Be Misinterpreted Because They Are Not Contextualized by Two Way Dialogue – Some non-investor constituents also note they are concerned that these metrics, if disclosed, will be “misinterpreted” by users of financial statements – insisting that audits can only be understood when contextualized in a “two-way dialogue” between the audit committee and the auditor. Unfortunately, while audit committees have the opportunity to conduct such a dialogue

²⁹ The [Chamber of Commerce’s comment letter on this Proposal](#) states: *The proposed disclosures fall woefully short of the required materiality threshold. Instead, the proposed disclosures would overload audit committees and investors with a large set of complex data not sought, not needed, not meaningful, and not obviously usable by them. The proposed disclosures would only add noise to the public company market for audit services.*

with the audit firms, investors do not. Should the solution then be to provide no additional information at all regarding the audit to investors? On the contrary, we are confident – for reasons we highlight above with respect to investors routine use of metrics in analyzing businesses – that they will be able to analyze and understand these metrics. We also believe that given 20-25% of CFA charter holders are either CPAs or Chartered Accountants and four of the largest ten employers of CFA candidates are the Big 4 accounting firms, they have an understanding of the audit business. Also given that analysts and investors are generally industry focused, we believe they have the ability to understand the metrics in the context of not only the audit process but also the context of the industry the company operates.

Further, if investors have questions, they can convey them to management before casting their vote. And investors have always sought greater access to audit committee members – which might be a needed improvement from questions regarding the metrics.

Investor Overload: Technology Obviates the Narrative – We also dismiss on its face the argument that investors will be overloaded with information if they are provided with these 11 metrics. The disclosure overload narrative is one that we have pushed against very heavily over the last decade.

In the context of developments in technology including artificial intelligence and machine learning in the last decade, we would think that those using this narrative to oppose accounting, disclosure or audit reforms would have realized this narrative is derisory and should be retired.

Technology has changed not only how information is consumed in the investment decision-making process, but what information is available for consultation.

As a result, the disclosure overload narrative used in opposition to accounting and disclosure reforms needs to be proved rather than presumed to be a valid argument to oppose transparency reforms.

Contextualization of Metrics: An Effort We Support – We support the proposal to provide audit firms with the ability to provide a supplementary narrative to further contextualize the metrics provided, and accordingly, we suggest that additional space be permitted for such narrative if the 500-character limitation is deemed insufficient.

In addition, firms can also provide a link in the narrative to their Transparency Reports and Audit Quality reports if they wish to provide further context to the metrics.

As we note above, we are also advocating for the inclusion of the metrics within the audit committee report section of the proxy alongside the audit fees and the work performed by the audit committee. This would afford additional contextualization.

Narratives Against Greater Transparency: They've Been Made Before – As we consider the narratives against this Proposal, we find these transparency opposing arguments very familiar. Many of the same narratives were used to oppose disclosure of the audit partner, audit participants and engagement tenure. As time has shown with those disclosures, the narratives are overstated and lack merit over time.

Especially Supportive of Engagement Level Metrics: Firm Level Metrics Provide Overall Context – We are especially supportive of the inclusion of metrics at the engagement level. We agree with the Board's observation that information about the audit work on specific companies – in which investors have invested in or are considering investing in, or the company on whose board of directors they serve – is especially relevant to investors. Also, as we note previously, we believe that to make these engagement-level metrics even more useful to investors, there should be a requirement – by the SEC, NYSE and NASDAQ – to disclose them within a companies' annual proxy statements, so that the information is readily available to investors and other users of financial statements in context. We also suggest digital tagging of such information.

We also support mandatory disclosure of metrics at the firm-level as well, as information relevant to the firm will be useful in providing even further context for engagement-level metrics and in evaluating a firm's audit practice and its related system of quality control. The engagement metrics in the context of the firm metrics, and the proposed firm reporting, convey whether engagement leverage, turnover and the degree of work completed before year-end are greater than or less than for the firm as a whole.

In sum, the Board's proposed metrics would help investors and other stakeholders better assess the characteristics of both the engagement team on the audits of companies in which they invest as well as the characteristics of the audit firm itself. These stakeholders would then have a basis to compare them to other engagements and other firms. Collectively, the proposed metrics, when used in conjunction with other publicly available data, will facilitate stakeholders' ability to assess the audit and make better-informed decisions, and would enhance the reliability and credibility of financial reporting overall.

Principles Based Disclosures will not Promote Comparability or Accountability: Consideration of Proposed Firm and Engagement Metrics in Context of Existing Firm Transparency and Audit Quality Reports³⁰ – Certain respondents to the Proposal have suggested that instead of the current quantitative requirements that are being proposed, the Board should develop a principles-based framework for the identification of relevant metrics; and that such a principles-based framework would allow for continuous improvement and for metrics to change over time in response to evolutions in audit firms and engagement execution.

We believe that a quantitative approach to disclosure in the form of publicly disclosed standardized metrics at the firm and engagement level as set forth in the Proposal are considerably more useful to investors than a set of principles that will inevitably result in

³⁰ Id., Footnote 11.

qualitative rather than quantitative disclosure and information that is not comparable between firms and engagements and over time.

Currently, we observe that the Big 4 audit firms already provide elements of the information within the proposed firm level metrics using a “principles-based” approach. Each firm has developed their own metrics; some are quantitative, and some are qualitative; some are defined differently; and some unattractive metrics or facts are excluded. Consider several examples:

- Specialist Hours – Each of the Big 4 firms provides quantitative information regarding the number of hours spent by specialists on engagements. However, while PwC, EY and Deloitte provide the *percentage* of audit hours generated by specialists, KPMG provides only the total *number* of hours, with no ability to calculate the percentage data. Further, the four firms vary as to what population of audits is included in the calculation of these metrics (all audit hours, or just hours related to public company audits. Also, they differ as to whether certain types of companies such as investment companies are included or excluded in the definition of a “public company”).³¹
- Turnover/Attrition – Similarly, all the Big 4 provide quantitative data on turnover or attrition, but again in different ways. Deloitte provides a voluntary turnover rate for “all professional staff”. EY, KPMG and PwC provide further breakdowns by level of staff member, but each of the breakdowns provided are different, such that any comparison among the firms is stymied.³²
- Leverage Ratios, Number of Years of Experience, Etc. – Similar comparability issues arise with metrics provided for leverage ratios (i.e., the ratio of partners to staff); number of years’ experience of professional staff; and other quantitative data provided in these reports.

As a result of the fact that the information today consists of self-defined, principles-based metrics provided by firms on a voluntary basis – and the fact that they are at the audit firm rather than the audit engagement level (i.e., the level at which the investor invests) – the transparency and audit quality reports have gone largely unused by the investment community. They are seen as marketing material rather than investor information.

³¹ Using the links in Footnote 11, see the following examples:

- 2023 PwC Audit Quality Report, page 6;
- 2023 EY Audit Quality Report, page 4;
- 2023 Deloitte Audit Quality Report, page 12; and
- 2023 KPMG Audit Quality Report, page 6.

³² Using the links in Footnote 11, see the following examples:

- Deloitte turnover rate is provided at 2023 Deloitte Audit Quality Report, page 18;
- EY provides turnover rates for senior managers/managers and seniors/staff in 2023 EY Audit Quality Report, page 19;
- KPMG provides rates for managers and staff in 2023 KPMG Audit Quality Report, page 28; and
- PwC provides a breakdown for each of three categories: MDs/Directors/Managers; Senior Associates; and Associates at 2023 PwC Audit Quality Report, page 5.

Investors are not seeking more principles-based ill-defined metrics at the firm level. They need more standardized information contextualized at the engagement level to the company they are investing in and anchored to the firm level information which is standardized in the same manner. As noted above, investors understand metrics are not perfect or perfectly comparable, but standards create a degree of uniformity that will allow them to be better analyzed.

In short, we don't support a principles-based approach.

We support specific quantitative and qualitative metrics/standards accompanied by principles to ensure that as new or unanticipated events arise not only the rule, but the spirit of the rule is followed.

Metrics will Evolve Over Time – Additionally, we do not agree with those respondents who are convinced that the metrics that are currently proposed would be “set in stone” and unable to evolve over time. As both the Board and users gain familiarity with these metrics, the Board will have the ability to revise and refine its requirements should they deem certain improvements and refinements necessary, as with any other rulemaking or standard-setting initiative. We would expect the metrics to improve or evolve over time as stakeholders learn and as the audit process evolves. If audits become more reliant on AI or technology, we would expect this to alter the hours and leverage ratios, and that contextualization will help investors understand what is changing about the audit.

Proposal Easily Passes the Investor Cost-Benefit Test

As noted above, investors believe that reliable audits are fundamental to the smooth functioning of capital markets, and investors and other financial statement users are the beneficiaries of the audit. Unfortunately, investors – as we demonstrated previously – have very limited information to understand the audit and the work of the audit committee and to create accountability across the ecosystem.

Our outreach to investors suggests they are seeking information consistent with the metrics included within the Proposal. Investors recognize they bear the cost of such information being created and are generally willing to pay for information and metrics.

The existing audit quality reports – at the firm level – suggest similar metrics are measures of audit effectiveness and that the underlying units of measure with respect to the metrics in the Proposal are data currently captured by the audit firms. With that in mind, we believe that the Proposal is not likely to be excessively costly and passes the “cost-benefit” test.

Consider this quote by the late Jack Bogle, Founder of Vanguard, in his [2012 testimony to the PCAOB on auditor rotation](#) where he addresses cost-benefit analysis.

Here, I take the liberty of expressing my strong reservation that the (theoretically wonderful) requirement that a “cost-benefit analysis,” a requirement of federal regulators since 1993, is the paragon of common sense. In my experience, cost is usually within the realm of calculation; benefits too often are not.

We routinely find that standard setters and policymakers – because they are pressured by those opposing their reforms – overweight the costs and underweight the benefits given they are much harder to estimate.

OBSERVATIONS ON FIRM & ENGAGEMENT METRICS

As we state above, we support the firm and engagement level metrics, and we are especially supportive of the engagement level metrics. Before we consider the specific metrics, we also consider several matters that are applicable across the metrics.

Matters for Consideration That Are Applicable Across Metrics

Location (Form AP & Proxy) and Digital Tagging of Metrics – We support the revision of Form AP as the location of the firm and engagement performance metrics as included in the Proposal.

As we note above will also be requesting, that the SEC – as well as NYSE and NASDAQ – require inclusion of such metrics in the audit committee report along with the audit fees so that the fees are contextualized and so that investors are aware of the existence of the metrics in context and without the requirement to search for the information.

We are also suggesting above that the metrics provided by the firm, whether they be firm-level or engagement-level, should be provided in a digital format (i.e., in Inline XBRL) to simplify consumption and comparison.

Units of Account/Masurement Used Within Metrics Sufficiently Standardized – As we look across the metrics there are several “units of account” those include: hours, years of experience, the engagement team, the definition of specialist, the definition of risk areas, and restatements. All are metrics or terms that are commonly used within audit practices or defined within the existing auditing literature and, therefore, adaptable by the firms to include within these metrics – recognizing as we do above that any metrics are “messy at the margins.”

Materiality Threshold

Certain respondents have expressed a concern there is no materiality threshold for compliance with certain firm and engagement reporting requirements, and because of this, the effort to avoid minor unintentional errors in reporting and other such “foot faults” would redirect audit firm resources that would otherwise be used to enhance audit quality. We do not object to the PCAOB establishing a *de minimis* threshold for unintentional inaccuracy that applies to all reporting of these metrics.

SIC vs. ICB Codes – We are supportive of the use of Industry Classification Benchmark (ICB), operated and managed by FTSE Russell rather than SIC codes, given they are outdated and lack the same degree of specificity. We believe we should commence with a more refined classification system from the outset of this process rather than retaining the challenges of existing SIC codes.

Qualitative Narrative – As an overall matter, we support the option for firms to provide a qualitative narrative for each of the reported metrics, as this would provide them an opportunity to contextualize the metrics and alleviate any concerns about any potential “misinterpretation” of such metrics. As noted above, firms could also provide a link to their Transparency or Audit Quality Reports to further explain and contextualize the reported metrics.

Scope of Application

We support the scope of application of the Proposal, which is to require firm-level reporting by every firm that audits at least one company that has self-identified as an “accelerated filer” or “large accelerated filer” and to require reporting at the engagement-level for every audit of an accelerated or large accelerated filer. Once the metrics have been in use for several years, we would expect that such reporting would extend to audits of all public companies.

Observations Regarding Specific Metrics

We support the disclosure of the proposed metrics (definitions included in **Appendix A**) for the reason articulated below and we provide specific suggestions where appropriate.

- **Partner and Management Involvement (Firm and Engagement Level)** – We believe this is one of the most important metrics in the Proposal, given that partners and managers are ultimately responsible for the audit. Information regarding the hours worked by senior professionals who have more experience in making judgements and evaluating estimates relative to more junior staff provides important insights into the oversight, supervision, and review of the engagement team. As noted above, many of the Big 4 firms already provide this information, signaling it is a KPI for them. Mandating a common calculation method – and providing the information at the engagement level – would make this information considerably more useful to investors.
- **Workload (Firm and Engagement Level)** – These proposed firm-level and engagement-level metrics would require firms to calculate workload for (i) engagement partners and (ii) other partners, managers, and staff. We believe that information regarding workload is important because, as the Board notes, overly heavy workloads may prevent an engagement partner from providing adequate and focused attention to an audit engagement – and presumably drives turnover of lesser experienced staff on the engagement. KPMG similarly states in its 2023 Audit Quality Report that:

[W]e are focused on improving the traditional busy season. Fewer hours and free weekends during this time are not only more enjoyable but improve decision-making during the audit.³³

Qualitative narrative from the firms could provide the information necessary to contextualize and interpret the quantitative information provided.

- **Specialist and Shared Services (Firm and Engagement Level)** – We support the disclosure of metrics regarding the percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers

³³ KPMG Audit Quality Report, page 28. (See link at Footnote 11.)

at the engagement level. We believe that a metric for hours worked by persons with specialized skill or knowledge would provide useful information to investors, as technical or specialized skills can be crucial to the successful conduct of more complex audits, as acknowledged in many of the Big 4 firms' Audit Quality reports.

Optional qualitative narrative provided by firms regarding the nature of the specialists utilized (i.e., tax, actuarial, valuation, etc.) and the audit areas to which specialists are deployed, at the engagement level, could provide the necessary context to make such metrics more meaningful. Additionally, we note:

- The definition of “shared service” as currently written³⁴ appears to encompass only those centers that are set up by a “network” of accounting firms and would, presumably, therefore not encompass an outsourcing center set up by a single firm. We suggest that the definition be revised to encompass all services that are not under the direct supervision of the engagement partner.
- For the firm-level metric, we suggest that using hours worked rather than number of engagements as the basis for calculation would provide more useful information.
- For the engagement-level metrics, we suggest disclosure of use of specialist, and their hours on a CAM-by-CAM basis, as well as overall.
- ***Experience of Audit Personnel (Firm and Engagement Level)*** – We strongly support the disclosure of metrics regarding the average number of years worked at a public accounting firm by senior professionals across the firm and on the engagement, as studies show that auditor experience is related to improved audit outcomes, through both pre-client and client-specific experience. Additionally, we suggest that:
 - At the engagement level, the level of experience metric should be reported separately for 1) engagement partners, 2) other partners on the audit, and 3) engagement managers.
- ***Industry Experience of Audit Personnel (Firm and Engagement Level)*** – We strongly support the disclosure of metrics regarding industry experience of audit personnel, as experience in a particular industry helps an auditor understand the industry's operating practices, the critical accounting issues faced in that industry, the risks of material misstatement of the financial statements specific to industry factors, and any industry-specific audit procedures.

We note that many firms routinely tout the industry experience of proposed engagement team personnel when bidding on new clients. We are confident that despite some potential imprecision in capturing this data at the margins, accounting firms will be able to come up with reasonable estimates in order to calculate and provide this metric.

³⁴ As defined in the Proposal, a shared service center is an associated entity of a firm, set up by a network of accounting firms, that, among other things, supplies those firms with personnel to assist in the performance of audits, and that is not itself another accounting firm.

Additionally, we suggest that:

- The Board adds a 10-year threshold as well [for partners], in addition to the 3- and 5-year thresholds for measuring industry experience.

We are aware that any industry classification system proposed, including the Industry Classification Benchmark (ICB), operated and managed by FTSE Russell, has the potential to be somewhat imprecise when reporting on audits of large conglomerate companies that operate in many different industries, but we believe using the ICB rather than the legacy SIC codes is a better strategy from the outset of the creation of the metrics.

However, as noted above, we understand that some of the data collected will be “messy at the margins,” due to the inherent nature of data collection. We are willing to accept some imprecision at the margins in the interest of advancing this important initiative. We believe that the quest for perfection should not be the enemy of getting started.

- ***Retention/Tenure (Firm and Engagement Level)*** – We support the disclosure of metrics regarding the continuity of senior professionals at both the firm and the engagement level as high turnover rates at either level can indicate a loss of valuable expertise and firm investment in training and can negatively impact the quality of the audit.

At the same time, we agree with the SEC’s observation that there is a need to strike a balance between maintaining continuity of engagement team members with introducing new personnel who will take a “fresh look” at the audit. Accordingly, we believe that these metrics will add to the mix of information provided in the Proposal, without drawing a specific inference as to an “ideal” retention/turnover rate. Additionally, we suggest that:

- The Board should consider adding a requirement to disclose the turnover rate/retention rate of staff at both the firm and engagement level.
- ***Allocation of Audit Hours (Firm and Engagement Level)*** – Having performed audits, we are aware that metrics regarding the amount of audit worked performed at interim versus at year end is a key metric of the efficacy of the audit. It gives time to address challenging issues, step away from the issue and gain perspective and deal with management in a less time sensitive manner. We believe this is one of the most important metrics. Accordingly, we fully support the disclosure of this metric as proposed.
- ***Audit Hours and Risk Areas (Engagement Level Only)*** – We support the disclosure of hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours at the engagement level. We agree with the Board’s observation 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.”

We also suggest the Board require metrics for total audit hours incurred by staff on the engagement team in the areas of significant risks, critical accounting policies and practices, and critical accounting estimates. These areas are, by definition, considered the most significant for the audit, and disclosure would provide important information to investors as to how the audit team allocated its time. They are also the most likely to be selected for inspection by the PCAOB. Additionally, we suggest that:

- The Board should consider adding a requirement to disclose hours by specialists (as noted above), senior professionals and staff on critical audit matters.
- **Quality Performance Ratings and Compensation (*Firm Level Only*)** – We support the disclosure of metrics that provide information regarding a firm’s compensation structure in relation to its quality performance ratings.

While we acknowledge that there can be variance among the firms regarding their particular rating scales and what types of partners (equity partners vs. non-equity partners) are included in the metrics, we believe that the modifications that the Board has proposed are sufficient to address these issues, such that we believe these metrics can provide important data to investors. Further, we are fully aware that quality is not the only factor driving compensation.

Investors routinely evaluate executive compensation packages and understand that while performance is an important factor, there is a mix of other factors such as firm profitability that are included in executive compensation decisions. Factors such as these can be discussed by the firms in the narrative section or via a link to their supplementary reports on Transparency and Audit Quality.

- **Audit Firms’ Internal Monitoring (*Engagement and Firm Level*)** – We support the disclosure of metrics regarding the percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level – including 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.

We believe that information about and results of a firm’s internal engagement monitoring activities could (should) be important to audit committees and investors when evaluating the auditor’s performance on the engagement. Such information may provide areas for the audit committee and others to ask more detailed questions regarding the audit and the engagement team.

At the firm level, this metric would allow for user comparisons across firms and over time regarding the volume and nature of engagement deficiencies identified and provide useful information to assist in understanding firms’ monitoring processes and results more generally. This would be particularly useful in comparing the firms’ monitoring processes to the PCAOB’s inspection findings.

In addition, we believe information regarding whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies, and the nature of such engagement deficiencies would be especially useful to investors.

We note that some constituents have objected to including this information because it would not provide any insight as to the severity of the deficiencies and whether any remediation was required. Presumably, however, information regarding the nature of the deficiency would provide this information and if not, it could be included in the narrative section.

- ***Restatement History (Firm Level Only)*** – We support the disclosure of metrics at the firm level regarding restatements (both “little-r” and “Big-R” 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. We believe this is extremely relevant information, and we note that many audit firms already include some type of information regarding client restatements in their voluntary audit quality reports – albeit inconsistently as the examples below highlight:
 - PwC, in its 2023 Audit Quality Report, provides the percentage of “issuer audit client annual financial statements that were not restated” noting that the term “issuer” includes SEC registrants and registered investment companies.³⁵
 - KPMG states in its 2023 Audit Quality Report that “of the 217 KPMG audits inspected from 2018 to 2021, there was one audit requiring a financial restatement and three audits with a restated ICFR opinion identified in connection with a PCAOB inspection. When looking at restatements across public audits, the firm continues to perform well, maintaining a restatement among the lowest in the Big 4 in recent years.”³⁶ Aside from providing a three-year rather than annual time frame for this metric, it does not state what types of issuers are included in these metrics.

Again, by mandating a common population (i.e. all or just those inspected by the PCAOB) and calculation method for this metric, the PCAOB would make this information much more useful to audit committees and investors.

³⁵ PwC 2023 Audit Quality Report, pages 6 and 61. (See link at Footnote 11.)

³⁶ KPMG 2023 Audit Quality Report, page 20. (See link at Footnote 11.)



Thank you again for the opportunity to comment. Please do not hesitate to contact us should you have any questions regarding our comments or wish to discuss them further.

Sincerely,

CFA Institute

cc:

Corporate Disclosure Policy Council

U.S. Securities and Exchange Commission

- Gary Gensler, Chair
- Hester M. Peirce, Commissioner
- Caroline A. Crenshaw, Commissioner
- Mark T. Uyeda, Commissioner
- Jaime Lizárraga, Commissioner
- Paul Munter, Chief Accountant

For ease of reference, we include the eleven firm and engagement level performance metrics in the Proposal below. These are followed by the 28 audit quality indicators (AQIs) proposed in the 2015 Concept Release.

2023 Proposed Firm and Engagement Metrics

Most of the metrics we are proposing would be presented at both the firm and the engagement level. However, two metrics would be reported only at the firm level, because we believe aggregated data would be most meaningful or appropriate, and one would be reported only at the engagement level, because aggregate data would not be meaningful.

The proposed metrics are:

- **Partner and Manager Involvement.** Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.
- **Workload.** 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.
- **Audit Resources – Use of Auditor's Specialists and Shared Service Centers.** 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.
- **Experience of Audit Personnel.** 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.
- **Industry Experience of Audit Personnel.** 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.
- **Retention and Tenure.** Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.
- **Audit Hours and Risk Areas (engagement-level only).** Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.
- **Allocation of Audit Hours.** Percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement.
- **Quality Performance Ratings and Compensation (firm-level only).** 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.
- **Audit Firms' Internal Monitoring.** 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.
- **Restatement History (firm-level only).** Restatements of financial statements and management reports on ICFR that were audited by the firm over the past five years.

In Section III.B below, we provide a detailed discussion of key terms and concepts used in the metrics, as well as a description of each metric with examples of calculations.

2015 Concept Release Audit Quality Indicators

The 28 potential indicators are:²⁰

| | | |
|----------------------------|---|---|
| AUDIT PROFESSIONALS | Availability | <ol style="list-style-type: none"> 1. Staffing Leverage 2. Partner Workload 3. Manager and Staff Workload 4. Technical Accounting and Auditing Resources 5. Persons with Specialized Skill and Knowledge |
| | Competence | <ol style="list-style-type: none"> 6. Experience of Audit Personnel 7. Industry Expertise of Audit Personnel 8. Turnover of Audit Personnel 9. Amount of Audit Work Centralized at Service Centers 10. Training Hours per Audit Professional |
| | Focus | <ol style="list-style-type: none"> 11. Audit Hours and Risk Areas 12. Allocation of Audit Hours to Phases of the Audit |
| AUDIT PROCESS | Tone at the Top and Leadership | <ol style="list-style-type: none"> 13. Results of Independent Survey of Firm Personnel |
| | Incentives | <ol style="list-style-type: none"> 14. Quality Ratings and Compensation 15. Audit Fees, Effort, and Client Risk |
| | Independence | <ol style="list-style-type: none"> 16. Compliance with Independence Requirements |
| | Infrastructure | <ol style="list-style-type: none"> 17. Investment in Infrastructure Supporting Quality Auditing |
| | Monitoring and Remediation | <ol style="list-style-type: none"> 18. Audit Firms' Internal Quality Review Results 19. PCAOB Inspection Results 20. Technical Competency Testing |
| AUDIT RESULTS | Financial Statements | <ol style="list-style-type: none"> 21. Frequency and Impact of Financial Statement Restatements for Errors 22. Fraud and other Financial Reporting Misconduct 23. Inferring Audit Quality from Measures of Financial Reporting Quality |
| | Internal Control | <ol style="list-style-type: none"> 24. Timely Reporting of Internal Control Weaknesses |
| | Going Concern | <ol style="list-style-type: none"> 25. Timely Reporting of Going Concern Issues |
| | Communications between Auditors and Audit Committee | <ol style="list-style-type: none"> 26. Results of Independent Surveys of Audit Committee Members |
| | Enforcement and Litigation | <ol style="list-style-type: none"> 27. Trends in PCAOB and SEC Enforcement Proceedings 28. Trends in Private Litigation |

Access **Appendix B** through this link: <https://rpc.cfainstitute.org/-/media/documents/comment-letter/2020-2024/pcaob-firm-and-engagement-metrics-appendix-b.pdf>