



HOT TOPIC

PCAOB Proposal

PCAOB proposal to report firm and engagement metrics

July 2024



Proposal would require public reporting of standardized firm- and engagement-level metrics.

Introduction

The development and public disclosure of key indicators of audit quality by auditing firms has been considered by the Public Company Accounting Oversight Board (PCAOB) for several years. The PCAOB issued a concept release in July 2015 (the 2015 Concept Release) that sought comment on 28 recommended Audit Quality Indicators (AQIs) and received 50 comment letters with varying views over the proposed AQIs.

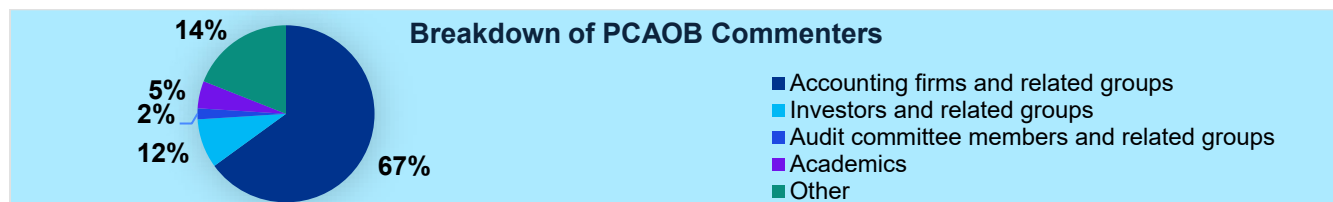
On April 9, 2024, the PCAOB approved a new proposal (the Proposal) to standardize public disclosure of firm and engagement metrics. The metrics specified in the Proposal relate to (1) audit effort and hour allocations, (2) auditor workload and retention, (3) auditor experience and (4) other performance and monitoring metrics. This Hot Topic provides KPMG’s initial reactions and summarizes reactions from investors and audit committee members on the Proposal.

Firm- and engagement-level metrics would be reported on different forms, as follows:

New Form FM, Firm Metrics	This annual form would report firm metrics for firms that serve as the lead auditor for at least one accelerated filer or large accelerated filer.
Revised (and renamed) Form AP, Audit Participants and Metrics	This annual form would report engagement-level metrics for audits of accelerated filers and large accelerated filers.

Public stakeholder feedback

The PCAOB received 43 comment letters from individual stakeholders and stakeholder groups.¹



¹ The PCAOB also received 50 comment letters on their 2015 Concept Release for AQIs in 2015 that are not included in the analysis herein.

While in ultimate support of the Proposal, PCAOB Board Member Christina Ho issued a Statement expressing the following concerns (summarized):

- Will the information be accurate given the burdensome nature to track and compile data?
- Will the information be helpful to the targeted users or fall short of providing sufficient context to make them useful?
- Will the information be a good fit for its proposed use?



Specifically, I am interested in hearing from shareholders and audit committees to what extent these metrics would be helpful or harmful to investors.

– Christina Ho, PCAOB Board Member.

Our initial reactions

We are committed to providing audit committees and other relevant stakeholders with accurate, decision-useful information related to our efforts to deliver quality audits, especially in the context of meaningful two-way dialogue. In our experience, audit committees already receive or have access to information from audit firms necessary to fulfill their fiduciary oversight responsibilities. Their oversight of financial reporting and the audit would not be enhanced by making information that their members already have access to publicly available.

The current two-way dialogue is done in a highly contextual manner, which could be lost in public disclosure of metrics under the Proposal. Further, how stakeholders would use such metrics is not clear. For these reasons, the comparability of the proposed metrics may be compromised and result in the risk of misuse or misinterpretation. The proposed engagement-level metrics are particularly concerning given the unintended consequences resulting from misunderstandings. For example, there would be the potential for misguided capital allocation decisions based on inaccurate interpretations of a metric that appears ‘of lower quality’ or for exposing audit committee members to incremental legal and reputational liability.

In our [comment letter](#), we also discussed operational challenges, the importance of confidentiality, and the need for implementation support infrastructure. We cautioned against metrics that do not necessarily correlate with audit quality and recommended a principles-based framework for identifying relevant metrics with the audit committee’s feedback that can adapt to changes in the profession, particularly given the increasing role of technology in the audit. We also noted that the compliance costs are expected to be significant.

Overall, we support reporting certain proposed firm-level metrics, adapted for recommendations outlined in our [comment letter](#). However, we believe requiring publicly reported standardized engagement-level metrics would be less effective than promoting ongoing and two-way contextual conversations with audit committees on audit quality based on an understanding of what information, including metrics, is more meaningful to each audit committee in its oversight role.

What did accounting firms, investors, and audit committees say?

Feedback received from accounting firms and related groups was broadly consistent with our observations, highlighting support for public disclosure of firm-level metrics and communications to audit committees on engagement-level information that could be used by audit committees and auditors to engage in two-way dialogue on audit quality. Concerns raised included similar considerations around risk of misuse, misunderstanding and misinterpretation, lack of comparability, and potential for unintended consequences, along with insufficient economic analysis to support the need for standard setting.

The following table summarizes perspectives from investors and audit committee members.

Investors and investor-related groups	Audit committee members ²
<ul style="list-style-type: none"> • Supportive of the Proposal to provide investors with decision-useful metrics about audit firms and audits. • Recommended post-implementation actions to educate investors on how to use the metrics, to review and monitor the metrics for potential improvements, and to provide automated solutions to analyze the metrics. • Recommended required reporting of incremental metrics not proposed, including (but not limited to) investments in training audit professionals and technology and further details related to PCAOB inspection results (e.g. Part I.A infractions). • Recommended requiring disclosure of metrics in the auditors' report. 	<ul style="list-style-type: none"> • Expressed the effectiveness and importance of the current two-way dialog with auditors in providing them with information to fulfill oversight responsibilities and evaluate audit quality. • Questioned the value the Proposal would provide audit committees considering existing insight and access to information mandated by the Proposal. • Expressed that public disclosure of metrics mandated by the Proposal could lead to unintended consequences, including exposing companies to litigation and reputation risks. • Questioned how the Proposal contributed to enhancing audit quality and whether investors would make use of the proposed information and metrics in their decision-making roles based on historical interactions with and requests from investors. • Raised concerns that information and metrics mandated by the Proposal lack comparability and meaningfulness and fail to take into account 'intangibles' important for decisions.

Where that leaves us

The PCAOB's next Board action is pending analysis of the comment letters submitted on the Proposal. This timeline will depend on the Board's deliberation of the feedback and the extent of changes made to the Proposal.

For further information

For more information, read the [KPMG comment letter](#), the [Proposed Rule](#), and [Board Member statements](#).

Contact us

Doug Besch
Chief Auditor, Dept. of
Professional Practice
dbesch@kpmg.com

Samantha Demy
Partner, Dept. of
Professional Practice
sdemy@kpmg.com

Kirby Vilker
Managing Director, Dept. of
Professional Practice
kvilker@kpmg.com

² Feedback obtained from outreach to audit committee members in addition to analysis of comment letters.

