CFA Institute

1900 K St NW, Suite 1130 | Washington, DC 20006
https://rpc.cfainstitute.org

04 February 2025

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F. Street NE
Washington, D.C. 20549-1090

Dear Secretary Countryman:

CFA Institute[1] appreciates the opportunity to comment and provide our perspectives to the U.S. Securities and Exchange Commission on the Public Company Accounting Oversight Board's ("PCAOB's" or "Board's") Release No. 2024-012, PCAOB Rulemaking Docket Matter No. 041[2], *Firm and Engagement Metrics,* (the "Final Rule" or "Firm and Engagement Metrics Final Rule ") as requested in the Notice of Filing of the Public Company Accounting Oversight Board's Proposed Rule on Firm and Engagement Metrics (the "SEC Notice on Proposed Final Rule on Firm and Engagement Metrics" or the "SEC Notice on Firm and Engagement Metrics").

Update to Our Earlier Letter

This response is an update to our letter dated January 7, 2025 on this same SEC Notice on Firm and Engagement Metrics.

The Net Result is Modest Rulemaking

In our previous letter we compared – via a tabular comparison of the metrics – the changes in the metrics from the Proposed Rule to the Final Rule and we highlighted not only the changes but the resulting net transparency to investors. The tabular comparison is provided in **Appendix A** attached to this letter. Pages 26 to 30 of our prior letter dated January 7, 2025 in the section entitled "Overarching Observations on Changes from the Proposed Rule to the Final Rule" provides our detailed analysis of the net result.

The Final Rule includes only 7 of the original 11 proposed firm-level metrics and only 5 of the original 9 proposed engagement-level metrics. Nearly all the revisions from the Proposed

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 See the PCAOB (proposed rule, final rule, and SEC submission), SEC notice and Federal Register publication of documents as follows:
- PCAOB Website:
  Docket 041 | PCAOB (https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-041)
- SEC Website:
  SEC.gov | Public Company Accounting Oversight Board Rulemaking
- Federal Register:
  Federal Register: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards

Rule to the Final Rule were reductions in firm and engagement level metrics, other than the addition of training time as a metric at both the firm and engagement level.

The net result of this rulemaking is only 8 firm metrics – many of which are disclosed albeit inconsistently by the audit firms today – and 6 engagement level metrics. Three metrics of which relate to audit hours, which are the subject of discussion below.

All of the metrics were included with the 2015 Concept Release related to this final rulemaking. We illustrate this in the Appendix to our prior letter dated January 7, 2025 and in **Appendix A** attached to this letter.

Additionally, these metrics have been a subject of discussion since the 2008 U.S. Treasury Advisory Committee on the Auditing Profession Final Report ("ACAP Report").

Finally, the simple numbering of the docket – Docket Matter No. 041 – provides a clear indication of how long this rulemaking has been in discussion. Presently, the PCAOB is up to Docket Matter No. 056.

Investors Support Firm and Engagement Level Metrics

Pages 17 to 25 of our prior letter dated January 7, 2025 in the section entitled "Investor Support For Firm And Engagement Metrics" illustrates investor support for the firm and engagement level metrics.

There we highlight not only our survey, but a survey done by the auditing profession which finds that investors find both the firm and engagement metrics "extremely useful" and that they are "extremely likely to seek out such information."

The survey shows that 35-50% of investors surveyed would find the firm and engagement metrics "extremely useful" and that they are "extremely likely to seek out such information." This is a high level of conviction for a survey question which ask, "how useful are such metrics" and "how likely are you to seek out such metrics."

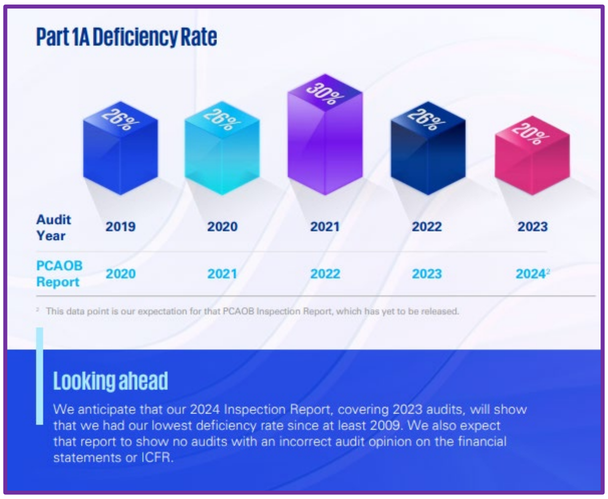
Other gradations of the response such as "useful" or "likely to seek out" were not disclosed. The high proportion 35-50% of those showing such high conviction – via the selection of the "extremely useful" and the "extremely likely to seek out such information" categories – demonstrates that a significant majority – likely in the 70-80% range – would find the metrics useful and would seek them out.

We included the relevant excerpts which illustrate these points in **Appendix B** to this letter.

KPMG Recent Press on Firm Audit Quality Report Highlights Relevance of Metrics

In a recent, January 23, 2025, Bloomberg article, *KPMG Slated to Post Best Audit Inspection Report in 15 Years*, KPMG lauds the anticipated improvement in their 2023 inspection findings. The article leads with the following statement:

> *KPMG LLP may have finally* ***cracked the code on delivering better audits to investors****: Giving its staff* ***more time to do their work*** *and* ***ensure they increasingly have weekends off*** *during the busy corporate filing season.*



The focus of the article is the release of KPMG's FY24 Audit Quality Report ("KPMG AQR Report" or "AQR Report") which shows a reduction in inspection findings to the lowest level, 20%, in 15 years. See illustration on Page 7 of the report as excerpted to the right.

The article goes on to quote Christian Peo, KPMG's National Managing Partner for Audit Quality and Professional Practice as follows:

> ***"It turned out that what our people needed was just a little bit more time,"*** *Christian Peo, the firm's national managing partner for audit quality and professional practice, said in an interview.* ***"If you're in hour 63 of a week in February, you might not be at your best."***
>
> *KPMG has rolled out a series of reforms since 2018 meant to turn around a firm that had struggled to meet basic standards and launched a scheme to falsely inflate its results that resulted in criminal charges. To fix those problems and improve its auditing, the firm made personnel changes and introduced a new audit platform along with artificial intelligence tools.*
>
> ***Three years ago, the firm began to tackle more audit tasks earlier in the year*** *to ease the crunch during the harried rush of corporate filing season that typically runs from January to March. In what Peo called "****a huge cultural change,****"* ***now more than half of its audit work is handled by late December, a reversal from past practices that left the bulk of the audit to be squeezed into two months****.*
>
> ***Adjusting the pace of the audit also freed up time to review teams' work before they could issue their annual assessment on clients' financial statements****. The firm spot checks the work of each audit for its portfolio of US-listed public companies—an added layer of scrutiny beyond what's required by US audit standards, Peo said.*
>
> ***It's also given staff some needed time off during the filing season crush****. The percentage of staff with weekends off during busy season doubled from 2020 to 2023 to 40%, according to the firm.*
>
> *"****We don't have to scramble,****" Peo said.* ***"There is some capacity in the system for us to be able to really think through not only is this the right accounting, but do we have all the right evidence."***

What Peo is saying is that KPMG's inspection findings are down because they:

1) Managed staff **workload**.
2) **Allocated work earlier in the audit** – before year-end.
3) Had **partner and manager time to review audit work** and ensure they had the right accounting and all the right evidence.

What's most intriguing about Peo's comments is that he attributes the KPMG firm level inspections improvement to better management, at the engagement level, of hours-based metrics. Such hours-based metrics are three of the six engagement level metrics (and three of the eight firm level metrics) included in the Firm and Engagement Metrics Final Rule. Below we make a side-by-side comparison of firm level and engagement level metrics and the KPMG comments.

DESCRIPTION	FIRM LEVEL METRIC	ENGAGEMENT LEVEL METRIC	KPMG COMMENTS
Workload	For senior professionals who incurred hours on large accelerated or accelerated filer engagements, average weekly hours worked on a quarterly basis, including time attributable to all engagements, administrative tasks, training, and all other matters.	For senior professionals who incurred hours on large accelerated or accelerated filer engagements, average weekly hours worked on a quarterly basis, including time attributable to all engagements, administrative tasks, training, and all other matters.	***"It turned out that what our people needed was just a little bit more time,"*** *Christian Peo, the firm's national managing partner for audit quality and professional practice, said in an interview.* ***"If you're in hour 63 of a week in February, you might not be at your best."*** ***It's also given staff some needed time off during the filing season crush.*** *The percentage of staff with weekends off during busy season doubled from 2020 to 2023 to 40%, according to the firm.*
Allocation of Audit Hours	Percentage of hours incurred prior to and following an issuer's yearend across the firm's large accelerated and accelerated filer engagements and on the specific engagement.	Percentage of hours incurred prior to and following an issuer's yearend across the firm's large accelerated and accelerated filer engagements and on the specific engagement.	***Three years ago, the firm began to tackle more audit tasks earlier in the year*** *to ease the crunch during the harried rush of corporate filing season that typically runs from January to March. In what Peo called "**a huge cultural change,**" **now more than half of its audit work is handled by late December, a reversal from past practices that left the bulk of the audit to be squeezed into two months**.*
Partner and Manager Involvement	Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.	Hours worked by senior professionals relative to more junior staff across the firm's large accelerated and accelerated filer engagements and on the specific engagement.	***Adjusting the pace of the audit also freed up time to review teams' work before they could issue their annual assessment on clients' financial statements****. The firm spot checks the work of each audit for its portfolio of US-listed public companies—an added layer of scrutiny beyond what's required by US audit standards, Peo said.* *"**We don't have to scramble**," Peo said.* ***"There is some capacity in the system for us to be able to really think through not only is this the right accounting, but do we have all the right evidence."***

Overall, Peo's comments demonstrate a link of these metrics at the firm and engagement level to audit quality – because engagement level is the unit of account in measuring both hours and firm level inspection findings. In articulating the linkage of these metrics – and the management actions behind them – to reduced inspection findings, KPMG not only demonstrates the linkage to audit quality but the efficacy and decision-usefulness of such metrics to investors in assessing audit quality. In effect, KPMG pilot tested these metrics, and they worked.

CFA Institute

KPMG's Letter to the SEC on Firm and Engagement Metrics Final Rule: Hours Based Metrics Do Not Have a Meaningful Connection to Audit Quality, Need Context and Aren't Decision-Useful to Stakeholders

In December 2024 – before the release of the aforementioned KPMG Audit Quality Report – KPMG filed a letter with the SEC related to the SEC Notice on Firm and Engagement Metrics in opposition to the PCAOB Firm and Engagement Level Metrics Final Rule. In that letter KPMG asserts the firm and engagement level metrics do not have a meaningful connection to audit quality, require context and aren't decision-useful to stakeholders. That assertion is inconsistent with the statements made above regarding how such hours-based metrics improved audit quality, need limited context, and have been demonstrated to be decision-useful to investors and other stakeholders.

Relationship and Relevance to Audit Quality

While asserting and demonstrating in the aforementioned KPMG Audit Quality Report that firm and engagement level metrics, such as workload and hours, are relevant in improving audit quality and reducing inspection findings, KPMG opposed the metrics in their earlier letter to the SEC stating that such metrics are not relevant to audit quality. Relevant excerpts from KPMG's letter to that effect are as follows:

- *In our comment letter above, we highlighted that **the proposed metrics do not have a meaningful direct relationship to audit quality.***

- *We believe that **many of the metrics, in particular the hours-based metrics, do not directly measure audit quality or will have a diminishing relationship to audit quality**, which is foundational to the SEC's objective of protecting investors. **These metrics may divert focus from factors that more directly influence audit quality**.*

- *Example Metric: **Workload***
  ***This metric fails to account for audit complexity, key qualities like professional judgment and skepticism, and the evolving role of technology, which are crucial for protecting investors**.*

  ***Audit hours fluctuate due to cyclical business demands, the mix of issuer year-ends in a firm's audit portfolio, and scheduling, and therefore are disconnected from a reflection on the actual effectiveness or quality of the audit**.*

- Relevance of the Metrics to Audit Quality
  In her dissenting statement, PCAOB Board Member Christina Ho questioned, ***"Will the information we are proposing to collect be helpful to the targeted users?"*** We agree with Board Member Ho's challenge and support transparency related to metrics that are indeed useful and relevant to the stakeholders the Board aims to serve. ***Decision-useful information related to firm and engagement performance relies on strong and direct relationships between those required metrics and audit quality.***

- Engagement-level metrics are highly specific to individual engagements and circumstances. ***A single metric cannot be anchored to reliably measure audit quality, making these metrics challenging to provide meaningful and measurable insights for the capital markets.***

Context – While asserting – when discussing publicly their improved inspection results from their AQR Report – that audit hours and workload are relevant to audit quality and reduced inspection findings, KPMG opposes the metrics in their letter to the SEC indicating the metrics are too highly contextual to be useful and comparable. See both the citations above and the one below that make this comment regarding contextualization.

- ***Firm and engagement-level metrics are highly contextual***. We reiterate our previous concern that ***absent providing substantial context to stakeholders, the comparability of the metrics will be compromised***.

KPMG, however, demonstrates that not much context is necessary and can be done in the firm wide AQR report. Additionally, context can be provided to investors in the reporting to the PCAOB or by audit committees in audit committee reports. Said differently, little context is needed and can be provided to investors through various channels. Investors are very used to dealing with metrics – they deal with non-GAAP measures quarterly. Comparability is achievable over time with the same company and between companies with analysis and discussion in, for example, audit committee reporting.

Decision-Usefulness – While asserting and demonstrating that audit hours and workload are decision-useful for KPMG in managing and measuring audit quality and reducing inspection findings in promoting their AQR report, KPMG notes in their letter to the SEC that the PCAOB has fallen short of demonstrating how the metrics are decision-useful to stakeholders through comments such as the following:

- *Stakeholders Need Decision-Useful Information:*
  The Proposing Release and Final Release communicate stakeholders' general desire for additional information but fall short of explaining how the information in the final rule will be decision-useful. *Specifically, the Board has not demonstrated the needs of stakeholders that would require the public reporting of the proposed metrics.*

The metrics are decision-useful to investors in the same manner as they are to KPMG. What gets measured gets monitored and KPMG demonstrated that their monitoring of the metrics improved audit quality.

CFA Institute

Overall: If Not Now, Then When?
The SEC Has Duty to Serve Investors Under Sarbanes-Oxley

We reiterate above our previous messages that:

- The net result of the firm and engagement metrics rulemaking is modest relative to the decades long discussion of this rulemaking – going back at least 16 years, but without question for the last ten years, since the concept release. This is not midnight rulemaking.
- Investors support and believe in the decision-usefulness of the firm and engagement level metrics. Even the audit profession's own survey demonstrates this.

We also demonstrate above that KPMG – in lauding its 2023 inspection findings improvements – when publishing their Audit Quality Report – and despite stating something different to the SEC in their letter a month earlier – has demonstrated the relevancy of key hours-based firm and engagement letter metrics to audit quality and the decision-usefulness of such metrics to not only KPMG but investors.

In his March 3, 2005 speech, *Statement Before the Open Meeting Regarding PCAOB and FASB Budget Review*, then SEC Commissioner – and soon to be the Trump Administration's new SEC Chair – made the following remarks regarding the SEC's responsibilities in the lead up to the discussion of the PCAOB's budget:

> *We all know that* ***the Sarbanes-Oxley Act created the PCAOB because of deep failings in the U.S. accounting profession's ability to regulate itself****. During and prior to the Enron-era,* ***the accounting profession fell down on the job and got what it deserved in the Act****. Parallel to the PCAOB's oversight of the accounting profession,* ***Congress mandated in Sarbanes-Oxley that the SEC oversee the PCAOB. We cannot shirk this statutory mandate****.*
>
> *The PCAOB is a unique creature in Washington - it is a non-governmental, nonprofit corporation that subsists on funding it takes from over 8,500 public companies.* ***It is not a self-regulatory organization. In essence, this non-government organization has taxing authority. Therefore, it must be accountable to the taxpayers in a transparent way****.*
>
> ***I would guess that in just about every public meeting we have had since I started this job, the words "transparency", "full disclosure", and "sunlight" have been uttered by one or more of us. We emphasize, encourage, and revere these qualities and instill them in the entities that we regulate****.*
>
> *Aren't these concepts just as important when it comes to regulators? Of course they are. Sunlight has the same disinfecting qualities in the government as it does in the private sector. Congress, after all, recognized this very principle in the Sunshine Act, which somewhat restricts our operations but reminds us constantly whom we work for. This public meeting is critically important for transparency of the PCAOB's budgeting process. Additionally, it is meaningful for the SEC's approval process to be transparent. The public deserves to know what we considered when we approve the PCAOB's budget.*

The taxing authority Mr. Atkins refers to is real, but the taxpayers he refers to are not the American citizens (i.e., or the American electorate) per se. The taxpayers the PCAOB exerts taxing authority over are investors in U.S. public companies. That is those who invest in public companies which may, or may not be members of the American electorate, and includes foreigners investing in U.S. public companies. In fact, investors in public companies have been taxed nearly $5 billion to run the PCAOB since it was formed in 2002/2003.

We highlight this remark because this is to whom Mr. Atkins says the PCAOB and SEC owes a duty to. As Mr. Atkins says, "***Congress mandated in Sarbanes-Oxley that the SEC oversee the PCAOB. We cannot shirk this statutory mandate.***"

This topic of engagement metrics has been discussed since at least 2008. The 2008 Treasury ACAP Report was released just a month or two following the end of Mr. Atkins nearly six-year term with the SEC in 2008 during which time the PCAOB was formed under the Bush Administration and commenced operations.

Investors have participated in the debate and weighed in on this topic of firm and engagement level metrics for nearly two decades along with their desire for the PCAOB to update legacy AICPA, profession created, audit standards. Mr. Atkins aforementioned comment regarding the SEC's oversight responsibilities related to the PCAOB apply not only to its budget but what it accomplishes with that budget. The PCAOB has spent nearly $5 billion of investor money since it was formed in 2002/2003 yet this metrics proposal (i.e., a Concept Release since 2015) remains unfinished and many of the original AICPA profession created auditing standards adopted in 2003 remain not updated and in use (e.g., NOCLAR).

This most recent PCAOB board has attempted to act in the interest of investors in completing this metrics proposal and in updating and enhancing such legacy AICPA standards after appropriate due process.

This rulemaking – and the firm reporting rulemaking – are very modest elements of transparency which Mr. Atkins notes is a revered quality at the SEC and those they regulate.

Investors have weighed in, commented, and supported these metrics over and over again during the last two decades and even the audit profession's survey of investors show investors have high conviction regarding the usefulness of these metrics and likelihood of their use. And at least one firm has said publicly that three of the most important metrics are linked to audit quality.

Investors – those paying for the PCAOB and to whom Mr. Atkins rightly notes the SEC has a duty – must ask, if this Firm and Engagement Metrics Rule is not approved by the SEC now, when will it ever be? What else can investors offer as support to the SEC who is charged with looking after their interests and fulfilling their statutory mandate to oversee the PCAOB?

****

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:
U.S. Securities and Exchange Commission
- Hester M. Peirce, Commissioner
- Caroline A. Crenshaw, Commissioner
- Mark T. Uyeda, Commissioner
- Ryan Wolfe, Acting Chief Accountant

Public Company Accounting Oversight Board
- Erica Williams, Chair

TABULAR COMPARISON
OF METRICS IN THE PROPOSED AND FINAL RULE

While we note the PCAOB has provided a summary description of the revised metrics in the Final Rule on Page 4 – and that the actual rules being created appear in detail in Appendices 1, 2 and 3 to the Final Rule – a marked version of the changes from the Proposed Rule to the Final Rule is not provided nor is a tabular comparison of the proposed versus the final metrics. We created such a tabular presentation which is presented below and is analyzed on Pages 26 to 30 of our prior letter dated January 7, 2025.

PROPOSED RULE METRICS			FINAL RULE METRICS			OBSERVATIONS
Description of Metric	Firm Level	Engagement Level	Description of Metric	Firm Level	Engagement Level	
Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff **across the firm's issuer engagements** and on the engagement.	X	X	**Partner and Manager Involvement.** Hours worked by senior professionals relative to more junior staff **across the firm's large accelerated and accelerated filer engagements** and on the **specific** engagement.	X	X	Only hours worked on large accelerated and accelerated filer engagements is required in the Final Rule in comparison to across all the firms issuer engagements in the Proposed Rule. Substatively, the metric has been scaled down to only large engagements.
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.	X	X	**Workload. For senior professionals who incurred hours on large accelerated or accelerated filer engagements**, average weekly hours worked on a quarterly basis, including time attributable to **all** engagements, administrative **tasks, training**, and all other matters.	X	X	Only senior professionals who incurred hours on large accelerated and accelerated filer engagements are required to report average weekly hours. The metric has been scaled down to only large engagements from all engagements and to only senior professionals rather than partners, managers and staff.
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 venters at the engagement level.	X	X				Removed.
			Training Hours for Audit Personnel. Average annual training hours for partners, managers, and staff of the firm, combined, across the firm and on the engagement.	X	X	Added.
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.	X	X	**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.	X	X	**No Change.**
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.	X	X	**Industry Experience.** Average years of **career** 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.	X	X	Career experience was included in Final Rule rather than experience.
Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm **and on the engagement**.	X	X	**Retention of Audit Personnel (firm-level only).** Continuity of senior professionals (through departures, reassignments, etc.) across the firm.	X		Engagement level metric has been removed .The title now no longer includes tenure. The anguage of the requirement has not changed other than removal of the engagment level metric.
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.		X				Removed.
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.	X	X	**Allocation of Audit Hours.** Percentage of hours incurred prior to and following an issuer's year-end **across the firm's large accelerated and accelerated filer engagements** and on the **specific** engagement.	X	X	Only the percentage of hours on large accelerated and accelerated filer engagements is required in the Final Rule in comparison to across all the firms issuer engagements in the Proposed Rule. Substatively, the metric has been scaled down to only large engagements.
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.	X					Removed.
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.	X	X				Removed.
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**.	X		**Restatement History (firm-level only).** Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm **over the past three years**.	X		The reporting period has been reduced from five to three years.

2015 CONCEPT RELEASE METRICS

Below is a summary table of the metrics included within the 2015 Concept Release.
A comparison of the 28 potential metrics in that 2015 Concept Release to the 11 metrics included in the Proposed Rule and the 8 which were retained in the Final Rule is as follows:

- Proposed Rule:
  - Engagement-Level 2,3,4,5,6,7,8,9,12,14,18 and 21
  - Firm-Level 2,3,4,5,6,7,8,9,12 and 18
- Final Rule
  - Engagement-Level 2,3,6,7,8,10,12 and 21
  - Firm-Level 2,3,6,7,10, and 12

Bottom Line: The Proposed and Final firm and engagement level metrics have been in discussion since 2015.

The 28 potential indicators are:[20]

AUDIT PROFESSIONALS	Availability	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	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	11. Audit Hours and Risk Areas 12. Allocation of Audit Hours to Phases of the Audit
AUDIT PROCESS	Tone at the Top and Leadership	13. Results of Independent Survey of Firm Personnel
	Incentives	14. Quality Ratings and Compensation 15. Audit Fees, Effort, and Client Risk
	Independence	16. Compliance with Independence Requirements
	Infrastructure	17. Investment in Infrastructure Supporting Quality Auditing
	Monitoring and Remediation	18. Audit Firms' Internal Quality Review Results 19. PCAOB Inspection Results 20. Technical Competency Testing
AUDIT RESULTS	Financial Statements	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	24. Timely Reporting of Internal Control Weaknesses
	Going Concern	25. Timely Reporting of Going Concern Issues
	Communications between Auditors and Audit Committee	26. Results of Independent Surveys of Audit Committee Members
	Enforcement and Litigation	27. Trends in PCAOB and SEC Enforcement Proceedings 28. Trends in Private Litigation

INVESTOR SUPPORT FOR FIRM AND ENGAGEMENT METRICS

Pages 17 to 25 of our prior letter dated January 7, 2025 in the section entitled "Investor Support For Firm And Engagement Metrics" illustrates and analyzes investor support for the firm and engagement level metrics. Below are excerpts from that analysis.

CFA Institute Survey

A 2017 CFA Institute survey of investors – the results of which were included in our comment letter on the Proposed Rule – shows firm and engagement metrics (i.e., formerly known as audit quality indicators) are at the top of the factors influencing investors perceived value of the audit and one of the top four priorities they believe policymakers/regulators should be working on.

Table 1: Factors Influencing Investors' Perceived Value of 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 servic	209	13.9%	16.7%	2.66

1=Respondents who rate(
Avg = Average rating of 1

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.

Center for Audit Quality Investor Survey

The Center for Audit Quality Investors Survey[3] (i.e., the CAQ Investors Survey) finds that investors believe firm-level (Slide 20) and engagement-level (Slide 21) metrics are "extremely useful" and they are "extremely likely to proactively seek out" the metrics.

Audit Firm-Level Metrics	Extremely... Helpful	Extremely... Likely to Seek Out	Δ
Information about the firm's system of quality control/management	50%	41%	-9
External review findings	49%	35%	-14
Audit firm internal monitoring*	45%	45%	-
Industry experience of audit personnel*	44%	44%	-
Quality performance ratings and compensation*	44%	41%	-3
Experience of audit personnel*	43%	36%	-7
The firm's commitment to DEI initiatives	41%	39%	-2
Cybersecurity policies	41%	46%	+5
The firm's commitment to audit quality and how this commitment is communicated	38%	46%	+8
Fees (e.g. audit, non-audit, public company vs. private)	37%	48%	+11
Partner and manager involvement*	36%	34%	-2
Workload*	36%	41%	+5
Firm governance	36%	38%	+12
Use of auditor's specialists and shared service centers*	35%	48%	+13
Allocation of audit hours (e.g., milestones)*	35%	34%	-1
Network arrangements	35%	36%	+1
Retention and tenure*	33%	43%	+10

Q5. How useful would each of the following firm-level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q6. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?

Slide 20

Audit Engagement-Level Metrics	Extremely... Helpful	Extremely... Likely to Seek Out	Δ
Partner experience level	50%	31%	-19
Years on the engagement of key audit team members	45%	40%	-5
Partner and manager involvement*	44%	36%	-8
Workload*	42%	45%	+3
Audit milestone completion information	41%	39%	-2
Auditor judgment	40%	36%	-4
Experience of audit personnel*	40%	42%	+2
Retention and tenure*	40%	43%	+3
Allocation of audit hours (e.g., milestones)*	38%	35%	-3
Industry experience of audit personnel*	37%	41%	+4
Use of auditor's specialists and shared service centers*	34%	42%	+8
Audit hours and risk areas*	34%	34%	-
Professional skepticism	31%	35%	+4

Q7. How useful would each of the following engagement level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q8. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?

Slide 21

Notes:

- The CAQ Investor Survey only disclosed the "extremely useful" and the "extremely likely to proactively seek out" percentage of responses to the questions posed to investors.

- As one can tell from the questions included at the bottom of the chart, the questions asked: "How useful" and "how likely would you be to proactively seek out" the firm level information which was listed?

  This question would suggest that the response options provided for a gradation of responses (i.e., extremely useful, useful, neutral, not useful, extremely not useful).

[3] See Pages 20-38 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

Yet only the "extremely useful" and "extremely likely to proactively seek out" responses are included in the survey results included in the CAQ comment letter.

Other questions in the CAQ Investor Survey framed with similar language (e.g., Slides 16, 17, 22, 23, 24 and 25) provide for a gradation of responses.

- Having conducted many surveys of investors over time, these are very high percentages for the category of "extremely useful" and "extremely likely to proactively seek out."

  Such high response rates for the "extremely" gradation would suggest that the next gradation would also be quite high. The high numbers indicate investors have strong conviction in their views.

  With "extremely" response rates in the 30-50% it is very likely that all responses on the "useful" and the "likely to proactively seek out" spectrum of response are well over the majority – more likely in the 70-80% range of support.

  Review of the other questions (e.g., Slides 16, 17, 22, 23, 24 and 25) suggest that such a conclusion is reasonable.

- The CAQ Investor Survey supports investors desire for, and use of, elements of information included in the Firm Reporting and Firm and Engagement Metrics Proposals – much of which has been scaled back in the final rules for each.

- The elements queried include nearly all of the firm level metrics. The same is true of the next question on engagement-level metrics.

When you consider these two preceding charts, they show investors have high conviction regarding the usefulness of metrics included within the Proposed Rule such as: audit firm internal monitoring; industry experience of audit personnel; quality performance ratings and compensations; experience of audit personnel; fees; partner and manager involvement; workload; use of auditor specialist; and retention and tenure. Despite this support from investors some of these important metrics were removed from the Final Rule.

The CAQ Investor Survey shows high conviction that investors want the firm and engagement level metrics and support the views expressed by other investors supporting the Proposed and Final Rule.