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PCAOB Issues Proposals on Standardizing Disclosure of Firm and Engagement Metrics and Modernizing the PCAOB's Reporting Framework

A pair of PCAOB proposals would benefit investors, audit committees, and others by increasing audit firm transparency, bringing consistency to the disclosure and calculation of audit firm and engagement metrics, and helping the PCAOB conduct its oversight

Washington, DC, Apr. 9, 2024

The Public Company Accounting Oversight Board (PCAOB) today issued for public comment a proposal regarding **public reporting of standardized firm and engagement metrics** and a separate proposal regarding **the PCAOB framework for collecting information from audit firms**.

The deadline for public comment on both proposals is June 7, 2024.

“Sound and consistent information bolsters confidence in our capital markets, and can drive audit quality,” said PCAOB Chair Erica Y. Williams. **“Informed by extensive study and stakeholder input, today’s proposals would strengthen PCAOB oversight and equip investors, audit committees, and others with clear, consistent, and actionable data related to the audit.”**

Firm and Engagement Metrics Proposal Would Require Audit Firms To Publicly Report Standardized Metrics

Today's [firm and engagement metrics proposal](#) would, if adopted, require PCAOB-registered public accounting firms that audit one or more issuers that qualify as an accelerated filer or large accelerated filer to publicly report specified metrics relating to such audits and their audit practice.

Key Components of the Firm and Engagement Metrics Proposal

The proposal sets out standardized firm- and engagement-level metrics that PCAOB staff believes would create a useful dataset available to investors and other stakeholders for analysis and comparison. The proposed metrics cover (1) partner and manager involvement, (2) workload, (3) audit resources (4) experience of audit personnel, (5) industry experience of audit personnel, (6) retention and tenure, (7) audit hours and risk areas (engagement-level only), (8) allocation of audit hours, (9) quality performance ratings and compensation (firm-level only), (10) audit firms' internal monitoring, and (11) restatement history (firm-level only).

The proposal would require reporting of firm-level metrics annually on a new Form FM, for firms that serve as the lead auditor for at least one accelerated filer or large accelerated filer. Reporting of engagement-level metrics for audits of accelerated filers and large accelerated filers would happen via a revised Form AP, which would be renamed "Audit Participants and Metrics." Finally, the proposal would allow, but not require, limited narrative disclosures on both Form FM and Form AP to provide context and explanation for the required metrics.

Why the PCAOB Is Issuing This Firm and Engagement Metrics Proposal

Reliable, consistent information can improve investors' ability to make informed decisions about investing their capital, ratifying the selection of auditors, and voting for members of the board of directors (including audit committee members). At the same time, it can improve audit committees' ability to choose among and monitor the performance of auditors.

While some firms publicly disclose certain firm-level metrics today, the PCAOB's staff has observed that the number of firms doing so is small.

Furthermore, the disclosures are inconsistent across firms — there are no common definitions or calculations allowing for consistent comparisons — and most of the disclosures are voluntary, so firms are free to revise or discontinue such reporting anytime.

At the same time, there is a lack of incentive for firms, acting on their own or collectively, to provide accurate, standardized, and decision-relevant information about their firms and the engagements they perform.

The PCAOB's Study of Firm and Engagement Metrics

Over the years, the Board has studied and explored ways to measure audit firm and engagement performance. Today's proposal was developed after considering input from numerous sources, including the 2008 recommendations of the U.S. Department of Treasury's Advisory Committee on the Auditing Profession, the PCAOB's 2015 Concept Release on Audit Quality Indicators, the voluntary practices of firms, recommendations from the PCAOB's Investor Advisory Group and Standards and Emerging Issues Advisory Group, information gathered by our inspections of firms, and the initiatives of international regulators.

Informed by this input, the proposal seeks to strike an appropriate balance between the expected benefits of the new reporting requirements and the associated costs of implementation and compliance.

Firm Reporting Proposal Would Modernize the PCAOB's Framework for Collecting Information From Audit Firms

Today's firm reporting proposal would, if adopted, amend the PCAOB's annual and special reporting requirements to facilitate the disclosure of more complete, standardized, and timely information by registered public accounting firms. As is current practice, much information would be disclosed publicly, and some would be available to the PCAOB only for oversight.

Key Areas Addressed by the Firm Reporting Proposal

The Board is proposing to enhance the required reporting of information by registered firms on the PCAOB's public Annual Report Form, also known as Form 2, and the Special Reporting Form, also known as Form 3, in several key areas.

1. **Financial Information:** Under the proposal, all registered firms would report on the public Annual Report Form additional fee information. The largest registered firms would also be required to confidentially submit financial statements annually to the PCAOB.
2. **Audit Firm Governance Information:** The proposal would require all registered firms to report on the public Annual Report Form additional information regarding their leadership, legal structure, ownership, and other governance information, including information that would govern a change in the form of the organization.

3. **Network Information:** The proposal would require on the public Annual Firm Report a more detailed description of any network arrangement to which a registered firm is subject, including describing the legal and ownership structure of the network, network-related financial obligations, information-sharing arrangements between the network and registered firm, and network governing boards or individuals to which the registered firm is accountable.
4. **Special Reporting:** The proposal would shorten the timeframe for all reporting on the Special Reporting Form from 30 days to 14 days (or more promptly as warranted) and implement a new confidential special reporting requirement for events material to a firm's organization, operations, liquidity or financial resource, or provision of audit services. Examples of events required to be confidentially reported under the new Special Reporting framework include (1) a determination that there is substantial doubt about the firm's ability to continue as a going concern; (2) a planned or anticipated acquisition of the firm, change in control, or restructuring, including external investment and planned acquisition or disposition of assets or of an interest in an associated entity; or (3) entering into or disposing of a material financial arrangement that would affect the firm's liquidity or financial resources.
5. **Cybersecurity:** The proposal would require confidential reporting on the Special Reporting Form of significant cybersecurity events within five business days and periodic public reporting of a brief description of the firm's policies and procedures, if any, to identify and manage cybersecurity risks.

Separately, the proposal includes amendments to facilitate a provision under the QC 1000 proposal that would require firms to report their revised quality control policies and procedures if QC 1000 were to be adopted.

Why the PCAOB Is Issuing This Firm Reporting Proposal

The basic framework for the PCAOB's annual and special reporting requirements has not been substantively reevaluated since its adoption in 2008. The Board has considered the experience of PCAOB staff, investors, and others with the current reporting framework. Informed by these considerations, the proposal seeks to update and improve the reporting requirements to facilitate more public disclosure that would be informative and useful to investors, audit committees, and other stakeholders.

Enhanced reporting requirements also have the potential to facilitate the PCAOB's oversight functions and its ability to protect investors.

Comments on Both Proposals Requested by June 7, 2024

Throughout both proposals, the Board requests comment on specific aspects of the proposed amendments. Readers are encouraged to answer these questions, to comment on any aspect of the proposal, and to provide reasoning and relevant data supporting their views.

The public can learn more about [submitting comments on PCAOB proposals](#) and the PCAOB's [standard-setting, research, and rulemaking projects](#) on the PCAOB website.

About the PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers registered with the Securities and Exchange Commission, including compliance reports filed pursuant to federal securities laws.

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