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PCAOB's Proposal Would Shed Additional Sunlight on Auditor Firmwide and Engagement Practices



Earlier this month, the PCAOB [proposed rules](#) requiring enhanced and standardized disclosure relating to public companies, with the intent of providing investors and other stakeholders with consistent, comparable, and useful information for decision-making purposes. The PCAOB's proposal would require public reporting—by PCAOB-registered public accounting firms that audit one or more SEC issuers that qualify as an accelerated filer or large accelerated filer—of prescribed information relating to these audits at an *engagement level* and of broader audit practices of the accounting firm at a *firmwide level*.

This standardized information would then assist investors and other stakeholders (including audit committees making auditor engagement or re-engagement decisions) in comparing auditor performance relative to 11 specified metrics. The areas covered by the proposed metrics include:

1. **Partner and Manager Involvement:** Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.
2. **Workload:** Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff.
3. **Audit Resources:** Use of auditor's specialists and shared service centers (measured on a percentage of engagements basis at the firm level, and on an hours' basis at the engagement level).
4. **Experience of Audit Personnel:** Average number of years worked at a public accounting firm by senior professionals across the firm and on the engagement.
5. **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.

6. **Retention and Tenure:** Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.
7. **Audit Hours and Risk Areas:** Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours (engagement-level only).
8. **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.
9. **Quality Performance Ratings and Compensation:** 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 (firm-level only).
10. **Audit Firms' Internal Monitoring:** Percentage of issuer engagements subject to internal monitoring and percentage with engagement deficiencies (firm level); whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies (engagement level).
11. **Restatement History:** Restatements of financial statements and management reports on ICFR that were audited by the firm over the past five years (firm-level only).

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