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### **At a glance**

*The PCAOB is seeking comment on a portfolio of twenty-eight potential quantitative measures (audit quality indicators) that may enhance the dialogue on ways to evaluate audit quality.*

## **PCAOB seeks comment on potential audit quality indicators**

### **What happened?**

On July 1, 2015, the Public Company Accounting Oversight Board (“PCAOB”) issued a [concept release](#) to seek public comment on a group of twenty-eight potential audit quality indicators (“AQIs”) and the availability and value of those AQIs to audit committees, audit firms, investors, PCAOB and others. The AQIs are meant to enhance the dialogue on ways to evaluate audit quality. The concept release follows the PCAOB’s outreach process through public meeting with its Standing Advisory Group and Investor Advisory Group and receipt of input from others, including the Center for Audit Quality.

The PCAOB developed the AQIs considering three principles: (i) AQIs should be quantitative wherever possible to add consistency of approach and objectivity to minimize subjective judgments, (ii) AQIs should generate data that enable users to pose critical questions, and (iii) AQIs should be used, and function together as a “balanced portfolio”, as no single indicator is likely to be determinative of audit quality. The AQIs are designed to operate in an integrated manner and, although quantitative in nature, contextual information is to be provided. The AQIs pertain to three broad categories:

- **Audit Professionals** — measures relating to availability of resources, competence, and focus (e.g., percentage of hours by significant risk for partners, managers, and staff) of those performing the audit.
- **Audit Process** — measures relating to an audit firm's tone at the top and leadership, incentives, independence, attention to infrastructure (e.g., investment in audit practice as a percentage of firm revenue), and record of monitoring and remediation of identified matters impacting audit quality.
- **Audit Results** — measures relating to financial statements (such as the number and impact of restatements and other measures of financial reporting quality), internal control over financial reporting, going concern reporting, communications between auditors and audit committees, and enforcement and litigation.

Most of the AQIs include measures at the engagement and firm level and are further described in the concept release.

The PCAOB observes the nature of AQI data and the method for its distribution will depend on, among other things, the users involved. The PCAOB is considering one or more approaches to assisting in the distribution of the AQI data. For example, it could (i) encourage firms and engagement teams voluntarily to discuss AQI engagement- or firm-level data with audit committees, or to do so publicly, (ii) require audit teams to provide that data to audit committees, (iii) collect and make “combined” AQI data public over time, as a single set of weighted figures for comparable firms, (iv) collate and make public on a firm-by-firm basis AQIs derived from public sources, and (v) consider requiring reporting of the necessary data to the PCAOB so that the PCAOB could make it public, or even require firms to do so directly.

### *Areas in which feedback is being solicited*

Information the PCAOB is seeking feedback, includes:

- The nature of the potential AQIs, including whether there are additional AQIs to consider and if other subgroups should be included (e.g., by office, region, or industry),
- The availability and value of AQIs to various potential users of the information, which includes whether the AQIs should be publicly available,
- How the data from which AQIs are derived might be obtained and distributed,
- Whether audit firms' use of AQIs should be voluntary or mandatory,
- The scope of audits and audit firms that may be subject to AQI reporting, and
- The possibility of phasing-in steps toward AQI reporting and use.

### **Why is this important?**

The PCAOB is considering, among other matters, whether the AQIs will enhance the discussion around audit quality and contribute to the identification of key variables that drive audit quality. In turn, the PCAOB suggests that this will provide another objective measure for audit committees, management and others to further evaluate the performance and stimulate competition based on audit quality among the audit firms.

### **What's next?**

Comments on the concept release are due no later than September 29, 2015. Additionally, the PCAOB will host a public roundtable to discuss views on the concept release on a date to be determined during the fourth quarter of 2015.

#### **Questions?**

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the National Professional Services Group (1-973-236-7800).

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