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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

PCAOB Rulemaking Docket Matter No. 041

Dear Board Members:

This letter provides my views on PCAOB Release No. 2015-005, "Concept Release on Audit Quality Indicators (Release)." Improving audit quality is, of course, a major objective of the PCAOB. Most observers believe that audit quality has, in fact, improved in recent years due to efforts by the Board and, particularly, by the firms involved. Unfortunately, any such assessments are largely subjective because agreed measures of audit quality are lacking. Thus, developing and making audit quality indicators public (AQI) is important and should be strongly supported by all of the Board's constituents. I certainly do.

Having participated in Standing Advisory Group discussions of this topic I recognize its challenges. Much has been accomplished by the Board and staff to develop the Release. But I agree with the statement, "The Board hopes ultimately to refine the list (of potential indicators) to a smaller number that is manageable and effective." Therefore, probably the most important aspect of this stage of the project is culling the list of 28 potential AQIs to a dozen or fewer for which the data are currently reasonably available to the firms and have an appropriate relationship to audit quality.

General Comments

Exactly which AQIs are the "best" is likely to be an evolving determination. How certain AQIs are calculated may well change over time based on experience of individual firms, comparisons among them, and analysis by investor representatives and others. And it's quite possible that some of the initial indicators may be found lacking in informational value over time and be replaced by others that are later developed. Thus, I believe this is an area where disclosure practices should be encouraged rather than required by the PCAOB. Over time, the better should be allowed to replace the good. While it may be appropriate to have as an objective for this project an initial list of "standard AQIs" to be presented by all firms (or some designated group

such as those with more than 100 public clients), it should be made clear that these are only suggestions. Firms should have leeway to adjust presentations to include those measures considered most relevant. Best practices should be allowed to develop.

There is no single, agreed way to determine overall audit quality whether for a firm as a whole, an individual office, or an individual engagement. However, a good, general assessment can be made with the right kinds of AQIs. But the unvarnished data will tell only part of the needed story and the Board should call for them to be accompanied by robust discussion when appropriate. This would include reasons for significant changes from year to year and for significant variations from industry norms as they develop. Also, I believe it will be important for firms to describe how AQIs are calculated in many cases, if not most. For example, in disclosing partner to staff ratios, are firms' "managing directors" (a class for some firms immediately below partner but with many similar characteristics) considered as partners or staff? In disclosing specialized skill or knowledge, would computer audit specialists who spend nearly all of their time on auditing be considered regular audit personnel or specialists? In order for valid comparisons to be made among firms, there are likely to be a large number of these measurement issues that warrant disclosure similar to how companies explain non-GAAP results.

Having served as audit committee chairman for five large, public companies, I believe that audit quality information at the engagement level is likely to be of interest mainly to that audience - the audit committee. Thus, I don't see the need for any public disclosure of AQIs at an engagement level or an office level, for that matter. In fact, an audit committee may well request the firm to provide customized AQIs for that engagement based on what issues seem most important. For example, while I don't think that industry experience AQIs would be useful at a firm-wide level, for an engagement of a bank or insurance company the audit committee would likely want to have an understanding of industry experience of the partners and staff and an AQI might help explain it.

Given the above, I do support publication of AQIs at a firm-wide level at least for the largest firms with encouragement for others to do so as well. In fact, in preparing this letter I read the excellent audit quality reports for each of the Big 4 firms. Both PwC and EY already provide a number of AQIs that help in understanding the extensive narrative they also provide. The other two firms provide only one AQI (Deloitte) or none, relying instead on pure narrative. I'm sure with the issuance of the Release and the competitive pressure of two firms already having done so that by year-end 2015 we will see all of those firms giving lots of AQIs. Frankly, the PwC and EY reports were a big help to me in assessing the list of 28 potential AQIs in the Release and developing my own list below of those that seem most promising for further development.

Comments on Potential AQIs

I have reviewed the 28 potential AQIs suggested in the Release, including comparing to them to the PwC and EY reports mentioned above as well as the Center for Audit Quality's "CAQ Approach to Audit Quality Indicators." I would first note that I perceive a redundancy between certain of the AQIs as follows:

- Item 8, Turnover of Audit Personnel seems to overlap with Item 6, Experience of Audit Personnel. Although they are not identical, providing Item 6 seems most relevant and the information is probably more easily captured in firms' existing systems.
- Item 17, Investment in Infrastructure Supporting Quality Auditing seems to overlap with Item 10, Training Hours per Audit Professional. I recognize that Item 17 is broader and would appear to include the dollars invested in new audit systems, etc. That could be informative but in the interest of winnowing the list of 28 I think that providing training hours per professional is probably more meaningful.

My second general observation is that several potential AQIs would "require study" before specifics could be suggested. Each of these seems problematic and in further interest of reducing to a manageable number of AQIs I would eliminate:

- Item 20, Technical Competency Testing
- Item 22, Fraud and other Financial Reporting Misconduct
- Item 23 Inferring Audit Quality from Measures of Financial Reporting Quality

Finally, I would eliminate the following potential indicators largely based on my judgement that they would be more difficult for the firms to develop and would not be of as much relevance to overall audit quality as compared to those that remain from the PCAOB's initial 28. My judgments are reinforced by seeing that the AQIs listed immediately below were not included, for the most part, in the reports by PwC, EY, or the CAQ.

- Item 7, Industry Expertise of Audit Personnel
- Item 9, Amount of Audit Work Centralized at Service Centers¹
- Item 11, Audit Hours and Risk Areas
- Item 12, Allocation of Audit Hours to Phases of the Audit
- Item 14, Quality Ratings and Compensation
- Item 15, Audit Fees, Effort, and Client Risk
- Item 16, Compliance with Independence Requirements²
- Item 22, Fraud and Other Financial Reporting Misconduct
- Item 24, Timely Reporting of Internal Control Weaknesses
- Item 25, Timely Reporting of Going Concern Issues
- Item 26, Results of Independent Surveys of Audit Committee Members
- Item 27, Trends in PCAOB and SEC Enforcement Proceedings
- Item 28, Trends in Private Litigation

That would leave the other ten AQIs as those I considered most promising for further development by the PCAOB. I do have a few observations about certain of the most promising indicators for the Board's consideration as follows.

¹ I'm not convinced that stand alone AQIs for this subject area would be meaningful to an assessment of quality per se. However, I do believe firms should disclose the extent and general nature of these activities at both a firm-wide level and particularly at the engagement level to audit committees.

² For this matter I might call for disclosure of the number of independence violations identified and remediated during the most recent year.

Item 4, Technical Accounting and Auditing Resources - At the engagement level it is important to understand that higher quality (more technically proficient) engagement personnel may not require as much in the way of "technical resources" from the national office. This is a good example of why any AQIs provided to audit committees may need to be customized or at least accompanied with sufficient explanations for the committee to find them meaningful.

Item 10, Training Hours per Audit Professional - It is difficult if not impossible to infer quality from a mere quantification of training hours. Whether the training translates to quality auditing depends on factors including what subjects are taught, the training methods employed, and many more. Nevertheless, I do think that at least total accounting and auditing training hours per professional would be an appropriate AQI. Industry specific training is more problematic as from a firm-wide perspective that wouldn't give much guidance on specific industry expertise. And I don't see the direct benefit of disclosing hours devoted to independence and ethics training separately. They should be considered part of accounting and auditing.

One possible added disclosure might be the number or percentage of partners and other personnel who failed to meet their continuing education requirements for the most recent year.

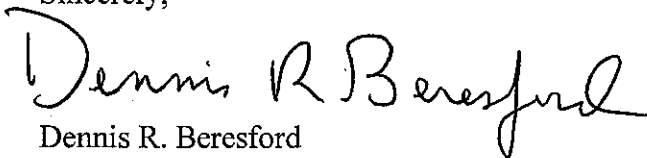
Item 18, Audit Firms' Internal Quality Review Results - For the firm level disclosures I would add the number or percentage of audit partners who were not covered by either a PCAOB inspection or firm quality review during the most recent year.

Summary

As noted earlier, I am supportive of the development of audit indicators and making firm-wide AQIs public at least by the largest firms. The PCAOB can and should play an important role in this process by continuing to develop the list of the most important AQIs that major firms can agree to publish on an ongoing basis. And the Board can assist in the development of measurement methods for the selected AQIs so that the ones reported will be consistent from firm to firm. However, I also feel that this does not need to be a standards setting project for which the Board ultimately establishes required reporting. Rather, the evolution of audit quality indicators is likely to be more effective and informative if allowed to continue to develop as it has for the past few years. The Board should facilitate and encourage this continued voluntary effort.

Please let me know if you have any questions about this response.

Sincerely,



Dennis R. Beresford
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