NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standards and Emerging Issues Advisory Group meeting on November 2, 2022 that relates to the standard-setting project, and related subject matter, discussed at PCAOB Docket 041: Firm and Engagement Metrics. The other topics discussed during the November 2, 2022 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at https://pcaobus.org/news-events/events/event-details/pcaob-standards-and-emerging-issues-advisory-group-meeting-2022.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDARDS AND EMERGING ISSUES ADVISORY GROUP

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MEETING

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WEDNESDAY
NOVEMBER 2, 2022

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The Advisory Group met via Videoconference, at 10:00 a.m. Eastern Time, Erica Williams, Chair, presiding.

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we're going to get that holistic picture.

MS. WATTS: All right. Mike, do you have anything else?

MR. GURBUTT: No, I appreciate all of the input and the feedback from everyone, but I think, over to you, Jessica.

MS. WATTS: Okay. Thanks. Okay. So we'll be breaking for lunch. And the next session starts at 12:45.

(Whereupon, the above-entitled matter went off the record at 11:51 a.m. and resumed at 12:45 p.m.)

MS. VANICH: Well, welcome back, everyone. Let's go ahead and get started. As mentioned earlier, we added a project on firm and engagement performance metrics to our research agenda. And Schuyler Simms from the office of the chief auditor is going to guide our discussion today along with introducing our other panelists. So, Sky, I'm going to turn it over to you.

MS. SIMMS: Great. Thanks, Barb. Good afternoon, everyone. I want to welcome you to our session on firm and engagement performance metrics. As Barb mentioned, in response to comments made by both the IAG and SEIAG at the June meeting, we have since added this topic to the research agenda, and we thought it would be a good idea to have a more detailed discussion with this group. We view this as a start if a conversation. And in order to help start that conversation, we provided to you several materials in advance of this meeting including--- the first is a briefing paper, which describes some background information and outlines key areas related to the topic and includes discussion questions for the SEIAG members. I'm going to use SEIAG from now on.

There are four points that I really just want to highlight and reiterate from that paper. The first is that the idea of Audit Quality Indicators goes back to the 2008 report which was issued by the US Department of Treasury Advisory Committee on the Auditing Profession, also known as ACAP. Among others, the report included a recommendation for the PCAOB to determine the feasibility of developing key indicators of audit quality. Over the years, both the PCAOB and our advisory groups have discussed the topic on a number of occasions.

The second point I want to highlight is that in 2015 the PCAOB issued a concept release on Audit Quality Indicators that described twenty eight potential indicators for which we received fifty comment letters.

The third point I would like to highlight is that over the years, while the PCAOB has not issued a rule or standard that requires disclosures of any specific metric by firm, the PCAOB has required that certain information be provided by the firms through the auditor's report. For example, tenure, cams, and to the PCAOB via form AP, lead engagement partner and other participants, for example. And that information is publicly available on our website.

The fourth and final point I want to highlight is that firms, over time, have begun disclosing certain firm level metrics publicly through their audit quality reports or their transparency reports.

The second item in your materials we also provided to you was a document called Attachment A, which reflects the recommendations from the 2013 working group of the IAG on Audit Quality Indicators. The recommendations were subsequently endorsed by the 2017 working group, and they relate to certain data compiled at both the engagement level and the firm level that firms would provide to the PCAOB. In that table, the staff indicated where some of this information may be available publicly already.

The third item you received in your materials is Attachment B. It's a report issued by Accountancy Europe earlier this year which summarized AQI initiatives by other organizations including regulators, oversight bodies, and others.

We're going to structure our discussion today beginning with dual members of the SEIAG and IAG who will provide a brief overview of the discussions at the recent IAG meeting last month on October 12th. Then, Jonathan Fluharty-Jaidee from the Office of Economic Research and Analysis, ERA, will provide some points to prompt for discussion on the economic considerations related to firm and engagement performance metrics reporting. And then lastly, Jessica Watts is going to tee up the questions for the SEIAG members and moderate our discussion today.

With that, I'd like to turn it over to the IAG and SEIAG dual members to provide you with a brief overview of the discussions at the recent IAG meeting on October 12th.

MS. WATTS: So our dual members are Lynn Turner, Jennifer Joe, Sandy Peters, and Jeff Mahoney. So, I'm not sure which would like to go first.

Okay, in the meantime I could call on Lynn Turner, but I don't see him.

MS. VANICH: Jessica, maybe if we're waiting, please call on him to join, but I'm happy to go through some of the notes I took at the ---

MS. WATTS: Sure.

MS. VANICH: So I would say, and maybe as I expect to hear today, we heard a variety of views and ideas. There was a discussion of firm metrics. While some were looking for more, other suggested that the focus be more so on engagement level metrics. There was discussion of information the PCAOB already makes available through form AP. There was some discussion to us giving consideration on how to make it easier to access information we have on our website.

We heard a few comments about specific information we could require, such as partner industry expertise, other partners assigned to the engagement, discussion of what inspections can they make available through their reports or otherwise. And I'll pause, because I see Lynn has joined. So---

MR. TURNER: Keep going.

MS. VANICH: Okay, alright. You can

chime in if you think I missed something. There was also discussion of certain challenges and how some data or metrics can be misleading. And I think that's the summary I had, so certainly interested in whether Lynn, Sandy, Jeff, or Jennifer want to chime anything in at this point.

DR. JOE: I think one of the big issues that people crossed in the IAG discussion, especially for people who were carry-overs for the former group was that they wanted to see action post-haste. And in particular, the data that's being presented in firm inspections that would be presented in a searchable manner that the PDF format --- as you mentioned the PDF format was most frustration. But I think, based on the history that Schuyler presented, we know that the members who exist now and others from the investment community have been calling for disclosures. And so a lot of our discussion was centered on the fact that there was a call for more quality indicator disclosures and less action. But very pleased to see the board has actually put it on the agenda.

MS. VANICH: Lynn?

MR. TURNER: There was discussion about the project being put, not on the agenda, but on the research agenda. And there was questioning at the board as to why it was on the research agenda given it had been studied ad nauseum in the past. Been two presentations in the past by the IAG, as we discussed earlier today. Also the office of Economic Analysis had spent a couple years working on it, and so there was questioning as to why it was still hung on the research agenda rather than being on the standards agents. And as I recall, Erica, Chair Williams, made the comment that the agenda is a fluid and changing agenda, and she made a statement something to the fact as I recall that she expects to see the project moved to the standard setting agenda in a reasonable period of time. If I mischaracterized her statements, you can jump in there, Barbara.

CHAIR WILLIAMS: You got it exactly right, Lynn, but our research agenda is different from our research agendas in the past, and no project would stay on there for more than twelve months, but we anticipate moving this project in particular forward quickly, and putting it on the standard setting agenda in 2023. So, you're exactly right.

MR. TURNER: Thanks, Erica.

MS. WATTS: Sandy?

MS. PETERS: I think all of that is right. There was also discussion with respect to the availability of information for investors to make decisions with respect to their voting decisions. There was, sort of, a discussion of the level setting of what is available to make investment decisions about the auditor --- or the voting decisions, I should say. And what's enough, what's too much. And I believe that--- as I walked away from the conversation, there were differing perspectives on that issue. But as I walked away from the conversation and thought about it a bit more, the reality of it is, is that, as an investor who's voting someone else's shares, what you have to make an investment decision is the audit opinion, which describes the procedures that were performed but not necessarily the results, you have an audit committee discussion and you have the naming of the audit partner and the number of years of the tenure which is on the opinion. But that's about all you have, right? And so, for me, as I reflected on the conversation afterwards in this back and forth. I really thought about the fact that you don't have a lot of information to cast your vote and really, isn't the objective of this making an informed decision about casting your vote? And I think as I read the paper that was prepared for today, and maybe we'll talk about that a little bit more as we go along, if memory serves me correctly, there was a discussion of the changing of the name from Audit Quality Indicators to Performance Measures. And some people have a view that they don't like that, and I personally am of the view that I do like that. Because I don't think--- it eliminates a hurdle to needing information to make a decision to actually do your vote, whether we can all come to an agreement that every one of these perfectly defines audit quality or not.

There was some --- I'm adding a little bit to what the conversation was, but that was topics that were touched on and I think we'll, on reading the memo for today, we'll touch on that a little bit more. But, the topic of what's available, not everyone had a uniform, sort of, understanding and appreciation of what is available. And I would just, reflecting on it, again reiterate, you have to check a box about whether you retain the auditor and you vote for or against and what do you have to make that decision when you have a fiduciary duty to vote someone's share.

MS. WATTS: Thank you, Sandy. Sky? Did I lose you?

MS. SIMMS: Thanks Jennifer, Lynn, and Sandy for those remarks. I'd like to turn it over now to Jonathan Fluharty-Jaidee from our Office of Economic Risk and Analysis.

MR. FLUHARTY-JAIDEE: Certainly, and thank you all for being here today. As it's been said, I'm Jonathan Fluharty-Jaidee and I'm a member of one of the teams that's working on firm and engagement performance metrics in OERA.

You've just heard a little discussion of what occurred in the recent IAG meeting. In my brief comments today, I'm going to focus on the economic implications of Firm and Engagement Metrics, FEPM's, formerly known as AQI's in their disclosures. I will discuss some of the conceivable benefits and costs, purely for the purpose for sparking debate. More directly, my comments here are solely intended to prompt various aspects of potential discussion as they may occur, and I don't intend to imply any conclusion about the existence, or non-existence, of benefits, costs, or unintended consequences, or any particular weighting thereof.

Finally, as always, my comments are entirely my own. They do not reflect the opinions of the board as a whole, any individual board member, or any of the PCAOB staff.

So with that, at first I would like to point out that audit quality is itself, fairly difficult to measure. It is, as a result, difficult to validate the relationships that are proposed as a measure towards audit quality, and it's very challenging to perform this work. To put it simply, we could require the disclosure of some particular metric about a firm or engagement, let's call it X for the sake of this discussion, just to give some color.

How does X relate to audit quality? Does X plus one, or an increase in X bring more quality? Does X minus one bring less? Is that relationship linear? Does two times X bring twice the quality? Does four times bring four times the quality? Or does that relationship taper off? What does that curve look like? Does the relationship of X to audit quality depend on some other variable? Why? Maybe this is firm size or the number of clients, the type of clients, staffing ratio, what have you, or multiple other variables. What are these and are they able to be disclosed with X? Does X cause the change in audit quality that we might document? Or are they only correlated? If the latter, does that correlation break down in certain conditions? Could it break down if historical trends in X were to change, such as due to manipulation?

Perhaps we don't really need to know the precise answers to these questions in order for client disclosure to have value. But it would be good to have a stronger understanding of what requiring disclosure of X would mean.

And then I'm going to cover some major benefits, conceivable major benefits, and cost or unintended consequences.

So firstly, FEPM's may provide investors with information which could improve the decision making in governance issues, such as the ratification of the auditor. Furthermore, they may provide investors with increased information which they can better use to understand the underlying risks of the issuers, reducing information asymmetry between investors, managers, and their auditors. Disclosure of the firm and engagement performance metrics may have benefits for audit committees in improving auditor selection, as you've no doubt heard. Audit committees use these metrics to compare and contrast characteristics of various auditors, allowing them to make informed decisions in selecting high quality auditors. In turn, increasing audit quality. Public disclosure of FEPM's could also allow auditors to improve their own services by comparing their metrics with the works of other auditors, thereby again, potentially increasing audit quality.

And then I want to cover some potential costs or unintended consequences. Requiring disclosure of FEPM's could send the wrong signal or create perverse incentives that firms should focus predominantly on those metrics disclosed. This focus could lead to positive work, which improves auditor quality as previously discussed, however also raises the specter of actions which might reduce audit quality. Firms could conceivable work to manage the figures, or they may simply focus too much on those metrics at the expense of other, perhaps unquantifiable, aspects of audit quality. Requiring disclosure could have impacts on smaller auditors, such as costs associated with collecting or reporting the metrics. In the past, exceptions have been discussed to requiring the disclosures for those auditors to alleviate this concern. However, in the same light, it's conceivable that larger firms will be able to produce, using their greater resources, better metrics and that may, in turn, may lead to increased concentration in the audit market.

And finally, it remains to be determined whether there will be any impacts on inspections and enforcement related matters.

Lastly, as I mentioned at the very beginning, it's still unclear as to whether many of these proposed metrics strictly relate to audit quality. This point is important to consider, as disclosure could bring in those cases limited benefits, while possibly creating costs or unintended consequences.

So with that said, I'm now going to turn it over back to you Jessica and Sky and the greater SEIAG for your open discussion. Thank you.

MS. WATTS: Thank you, Jonathan. So in addition to the really great questions that Jonathan has just provided to us, in the materials that we provided, we also had some additional questions. So I just want to provide those to kick off the discussion because I want us to think about what Jonathan said, and then also the questions that we had provided previously.

Brian, could you pull up those questions real quick? Thank you.

So, while he's pulling those us --- thank you.

So, here there were a group of seven questions that we provided. In thinking about the materials, we were wondering how are you or investors currently using the information that is publicly available, either from the PCAOB, as Sky mentioned on form AP, or through the firms? So they have, as Sky mentioned their transparency reports and some of their audit quality reports. What are your views related to the comparability across firms of these performance metrics? Three, besides the metrics already published by the PCAOB and provided by the firms, what other performance metrics will be useful to investors and audit committees and others? How do, or will, users use firm level or engagement level performance metrics in their decision making? How would you expect this information to be reported? Either through form AP, the firm's audit quality reports, transparency reports published on the firm's websites in the auditor's report, or other methods. Which firm should be required to provide this information? So is it all firms that are registered with the PCAOB on all engagements or firms that only audit over a hundred issuers? So those that are currently annually inspected. Or maybe firms that audit a specific number of issuers or broker dealers? And then are there unintended consequences to requiring firm reporting on performance metrics? I think that's a lot of what Jonathan was also covering.

That's kind of our list of questions in addition to what Jonathan mentioned that we wanted to kick off this discussion. And I already see we have a hand up.

Dane?

MR. MOTT: Sure. I guess, you know, as an investor I guess I'll give some thoughts on what we're doing and what we could do with these additional data points.

Internally, we already do have an audit quality scoring framework that we use, and we're ingesting data on all U.S. public companies. We use a data provider. We're ingesting that data, and we are looking them on different dimensions. As Sandy alluded to, the data that's available isn't great. A lot of things that we have to look at currently are historical incidences of restatements, internal control weaknesses, other types of issues that might indicate that, perhaps, the audit is of potentially lower quality.

My dream case, I guess, would ultimately be that there would be a lot of improvement to the form AP and we'd see AQI's coming through the form AP at an engagement level. And also, the form AP would move from PDF form to a database form. I put a little comment in the section there. You can kind of think of it a lot like the form 5500 data which is available in the Department of Labor website where it's all structured data. There's form questions that their supposed to ask, so data will go into six places so things can come in a spreadsheet, people can go to the website, self-serve, pull down the spreadsheet, get all those analytics for every single engagement, and then also have an API available. Because more and more in the investment community we're building tools that are ingesting data. So we would ingest this data across the universe.

In terms of how we would use it at the engagement level, we'd look at all these indicators, and different indicators would have different relevance for different types of issues. Like if I'm focused on derivative risk, I'm going to want to see how many experts are involved in the audit --- how much is there. Or if the audit partner is spending five percent of their time on this particular audit, that would raise questions as to how much of their attention is really occupied if they have, say, six or eight other audit clients. So how this would start is we would look at all these AQI's. We would do a lot of what the academic community would do. We would look at cases of previous audit failures and we'd try to make correlations. If we had seen some of these data points, might these have given us indicators? And then over time, as the data is available, we'll be able to back test and get a sense for what's effective or not. And as we focus on the outliers, how it will lead to engagement. We are fundamental investors. So we would have calls with management teams. We would have calls with the chair of the audit committee, and we'd want to talk about it because ultimately the investors are paying for the audit. The cost issue isn't an issue. We pay for the audit as the owners of the company. And so, ultimately, AQI's are our best ability to get a sense of whether we are buying a good product or not, so we can then ask questions and investigate further whether we are getting value for our money, and whether the audit is a good audit.

So I'll stop there.

MS. WATTS: Thank you, Dane, that was very helpful. Sandy Peters?

MS. PETERS: --- fits pretty well with what Dane had said. As I read this document, the memo, one thing that really stuck out with me is on page five, there's a statement, and it --- copies of a study which I didn't have a chance to read in detail, but it says that audit quality is itself immeasurable. And to me, that's a really concerning statement, right? And even in some of the things that Dane said, we're using failure as a measure of quality, right? And failure is the ultimate measure of lack of quality, right? It is not an indicator of quality, it is a failure, right? And so I think it gets back to the earlier point of, what information do we actually have to evaluate quality? So when --- is it Justin? Or, Jonathan, sorry. I should remember that. My brother's name is Jonathan. You were saying, is it X plus one or X minus one or X times Y. What is X in measuring audit quality, right? Is I think, really the question at hand for investors.

What Dane is actually describing is, at a SEC investor advisory committee meeting a year or so ago, maybe, I don't remember exactly which one it was, Colleen Honigsberg from Stanford referred to the fact that audit is a credence good, right? And this study basically is saying we can't measure it because we don't have the information, so that makes it immeasurable rather than saying if we have information we would be able to measure it. Because I read that, and I also say, well then, how does the PCAOB measure quality, right? They obviously have more information, which I think gets to the central issue of what information do we actually have as investors to evaluate audit quality, right? As I said from the outset, it is the audit report, which is procedures. It's the audit committee document. And it's a couple pieces of information on form AP which aren't necessarily indicative of quality, they're just indicators of who does the work.

My experience has been that investors don't read the firm level reports. A lot of them don't know they necessarily exist. A lot of them are very qualitative. Some are quantitative, I will give them that. But one of my questions in looking at the summary in the paper is, has anybody mapped out the quantitative ones and looked at them across firms and by indicators? I have not done that. Maybe others have. But I think that gets to the question of --- I mean, to me, this should be measurable. We're creating a set of work papers. The work papers are the evidence of, in fact, audit quality. I think, for investors, the challenge is, why can't we do this? Why can't we get more? And Dane, I think, described well how they might use it. But I think the question is, we need something to be able to move it, the audit, out of the range of a credence good even if it's not perfect to then be able to make a question about how to make it more measurable, is I think the issue that investors are facing. And I think what came up at the IAG about, why is this on the research agenda and not on the standard setting agenda. Because, as the paper indicates, this has been on the agenda in some form for almost ten years.

Anyway, just an add on to what Dane was saying, and linking it to the previous conversation, or the previous comments I made.

MS. WATTS: Robert Knechel?

DR. KNECHEL: Not sure I was next, but

thank you because I really want to respond to Sandy's comment. By the way, thank you. As the author of the original credence goods paper and papers in auditing, it's nice to hear somebody mention that. This is a fundamental issue. I'm fairly agnostic about AQI's. We can certainly do this and there's information to be gained out there. But there's this fundamental problem, is we cannot operationally define what audit quality is. If you can't operationally define something, it's really hard to figure out how to measure it. And so, in the end --- I've got a lot of points that may come up later, so I'm just going to cut it short here. But in the end, what we measure, and this is Jonathan's comment, we measure a lot of things that we kind of hope are correlated with the unobservable quality that we're all interested in. But we don't really know if it is. And furthermore, we don't know what the functional form of that relationship is. Is, you know, just taking one kind of metric people often mention is how much did the partner spend on the engagement. What is the right number? Nobody knows the right number. And that is highly idiosyncratic, potentially, to any individual engagement.

So these are some really insignificant issues. And then when you look at this within the context of the management accounting literature, which has studied a lot of these types of internal use of quality control systems, you often find that the results are very dysfunctional. So the bottom line is, this is not necessarily a bad idea. I think it's something that makes a lot of sense to try to do. But I don't think we should underestimate the problems that we will confront which is why there has not been a lot of action on this issues. I've been around a long time. There's not been a lot action. And I saw Preeti mentions the transparency reports. Well, in Europe, they've been around a long time and, pretty much, research shows that they don't matter. They just don't really tell anybody anything that they need to know. At least that we can observe.

So, I think this is a great dialogue, and I look forward to the rest of the conversation. So I'm going to shut up now.

MS. WATTS: Preeti, since you were mentioned, I'm going to pass it on to you. You're muted.

DR. CHOUDHARY: Am I okay now?

MS. WATTS: Yes.

DR. CHOUDHARY: A couple thoughts. I agree with Dane that making the data available at the engagement level is going to be most useful. I also agree with Robert. And because of Robert's comments, I think we need to be careful not to call them AQI's. I definitely support disclosing the metrics, but because it's very hard to know for sure what the exact relationship is. By making the data available, what Dane's process that he's describing, is that we learn from the data and we figure out how to use to data, and we figure out what the nuances are that certain firms we're going to expect certain things, and other ones we may not expect, on a different engagement, the same kind of thing. And that's a learning process that we can only engage in if we have the data to begin with.

I think the data needs to be in a searchable database. It needs to be disclosed at the engagement level, and it needs to not be called AQI's. Maybe engagement metrics, or something like that. The current landscaped of the transparency reports, I've looked at a number of them over time. Every year, what a firm talked about changes, the wording they use changes, the definitions change. So in order to make this useful, we need to have clear definitions of how to define the engagement metrics so that they are comparable across firms. And then we need some sort of inspection process to ensure that firms are faithfully reporting it. Without that, any metric is going to be virtually useless because it's not going to be comparable. And that's what we have right now, is audit firms disclosing whatever they want and having it change from year to year and from firm to firm.

And then the last thing that I wanted to say is the Portuguese --- I looked at all the lists --- I think the Portuguese list was actually the best. It was simple and clear. Many of the items mentioned there, there is research to support that those are correlated at least with audit quality. And specifically, having more disclosures about middle managers in the audit, that is, senior managers and managers. There's been some research that I did with the PCAOB, and other research outside of the PCAOB's 4A that supports that as well.

Thank you.

MS WATTS: Thank you, Preeti. That's good insights. Brian Croteau?

MR. CROTEAU: Thank you. So I welcome this discussion. I think it's a great discussion on a topic that really matters relative to understanding audit quality and understanding how firms operate and what they focus on relative to audit quality. I do think this is an area that has evolved over the years. We're very proud of our audit quality report. And I would comment because not everyone probably appreciates. There is a difference between an audit quality report and a transparency report. And most of the larger firms are producing both. The transparency reports tend to be a shorter version that's compliance focused relative to EU requirements. The fuller version of an audit quality report contains a lot more information in what we call our transparency data points that are quantitative. So that gets into areas on human capital like turnover utilization, how we leverage offshore resources, the use of specialists, experience levels, training independence, output measures like inspections and restatements. And we've tried to be very comprehensive. The list of our transparency data points, and I take the point on not calling them AQI's which we purposely don't do either. I think that makes good sense. We call them transparency data points. We've, over the years, added to that list each year based on an evaluation of what we see others in the profession doing. And then what we do internally relative to managing our own practice. So we don't have a separate list internally that we're not sharing. We share and we make transparent the same measures and data points that we are looking at internally. I know that, for us, and I think many of the other firms, when we do change from year to year, our footnotes disclose both the old measure and the new very transparently relative to why we're changing, what we changed, and what the measure would have looked like under the old computation. So we're not trying to hide the ball on that. But there are reasons as we evolve our business, whereas, we try to be more comparable to what others are disclosing, that we sometimes do make changes from year to year.

So what I would say, though, is we receive fairly positive feedback, when we do get feedback relative to the disclosures that we make. That's not to say that we're not willing to learn or make more disclosures or new disclosures at the firm level relative to our transparency data points. But I do think you'll find a fair amount of commonality among at least the annually inspected firms in the kinds of disclosures that you see. The quantitative disclosure by itself is the just the beginning. Really then that helps us write our audit quality report in describing how we think about those measures each year, what we're doing when we've got, for instance, more turnover or higher utilization or a change in our delivering model. And so the story that we tell is the story that we have worked through during the year ourselves in managing quality and managing our business.

So I do think that those reports have come a long away. If you haven't spent some time looking at them for the larger firms, annually inspected firms for sure, spending some time with them, looking how they compare to one another enables you to ask very good questions of individual firms relative to how they are thinking about quality, how they are managing their practices. At the engagement level, there's diversity as to what audit committees may be interested in seeing certain that we provide extensive information to the extent that there is interest for, based on request. And that informs how we think about firm level disclosures as well, whether it might be requested at the engagement level or firm level disclosures as well.

So I guess I would just say that I think, important as you're beginning to move forward, understanding of the discussions that led to where we are today, have resulted in firms really making a lot of transparent disclosures. And if some are looking at the transparency reports, you're probably not even seeing the full extent of those disclosures, so I'd encourage to look for the audit quality reports reach of the firms. And I suspect like our firm, other firms would be very receptive if there were measures that aren't being reported today that someone thought would be useful, we certainly would consider making additional disclosure. That is what's caused us to get to where we are today. But again, we've very much aligned how we manage our own practice today.

MS. WATTS: Thank you, Brian. John White?

MR. WHITE: I feel like I want to respond to like everybody and say that I agree with everybody and I can't remember exactly what everybody said. But let me at least lay out the way I find myself looking at this as an advisor to audit committees frequently.

I guess what I'm really suggesting is an additional way of looking at all this is to look through the lens of audit committee members. And I say that I fully appreciate, I guess Sandy said it at the beginning, that what we're talking about here at one level is information so investors can better cast their vote on whether to approve the auditors. And I certainly recognize that that is, I guess perhaps the number one goal of this discussion.

I find myself focusing on a different goal and one that I think is very important. And that is the planning for the individual audit that's going on. And that planning is obviously between the audit committee and the auditors. I mean, the auditors present an audit plan and they engage with the audit committee to figure out what you're actually going to do. What I feel like what we need is these audit quality indicators to help the, or whatever the right title is, to help the audit committee work with the auditor each year in figuring out what's the plan for the audit. You have to remember, the audit committee, they're your number one line of defense. They're there everyday in the weeds with the auditors. And, I guess, Jonathan, what you were saying back at the beginning really struck me is the information that I think that audit committees need when they're looking at these indicators. You were talking about whether they are correlated or just causal with respect to high quality audits. I guess I would --- does X produce a high quality audit is one of things that I think would be very useful for an audit committee member to know when --- the staffing ratio or the number of --- amount of work that's being done at a service center or the amount that's being done by specialists or the number of hours. All the different engagement level pieces of information, when that's presented to the audit committee, they should be saying, well on our audit aren't we this or that? Should we get more of this? Should we get more of that? And the PCAOB inspection process, when you have your 900 inspections, you see the results of audits across the board, and across firms. Remember it's not just one firm. You see all the firms. If you could be giving audit committees --- I mean, it would be public to everybody, but if you could be putting out the information that these particular quality indicator provide useful information or are correlated or causative of high quality audits, I think audit committee members would use those. And it's not having data about the firm, it's having data about specific indicators and how that would help the audit committee plan their particular audit to make it better.

And so I guess I hear Sandy and I agree entirely that number one is to help the investors cast their vote. But I think we should be thinking about some of this is how do we help audit committee members do their job every day.

MS. PETERS: I need to be clear. I agree. I'm in raging agreement with that. I'm just using that as an illustration of the ultimate outcome of what an investor's --- the action they have to take to draw a better picture with respect to what investors have to make a decision today.

And while certainly audit committees can do it, we want to hear more from everyone who is there to protect our interest: auditors, investors --- I'm sorry --- auditors, audit committees, and management. So my comment was simply, it is actually at the firm level because

I'm talking about voting a particular --- I'm sorry, at the issuer level. Not the audit firm level because that's where we're taking a decision. My point --- I'm in agreement with you. So I just wanted to make sure that my point is clearly understood.

Thank you.

MR. WHITE: If you take my comment to its further conclusion, it may --- I'm sure a number of you won't necessarily agree with this, but you don't necessarily have to have as much disclosure to investors about everything if you can just tell audit --- which is going to be --- I have to assume is going to be a challenging issue with respect to the audit firms in terms of --- when you really take this to the engagement level in public disclosure. You don't really need --- well, what I'm trying to suggest as a goal is give the audit committee the tools that they can use and knowing that if you have this or that, what correlates with a high quality audit so they can ask for that as they are planning the audit.

And Sandy, I wasn't being critical of you in the slightest. Casting your vote is the most important thing here. I'm not ---

MS. PETERS: I didn't take it as a criticism, I just wanted to clarify my point. I agree. I just don't think that the audit committee--- we do want it at the level. We do want the audit committee to be proactive. Certainly we want to know these things. We want them to do things in advance. We just don't want it to only be to the audit committee. We want a --- not it to be a bad game of telephone, but a transparent game of, or a transparent process where there can be a good dialogue with respect to the measure and whether or not they ultimately lead to that quality.

MR. WHITE: Well, this is a point I've made at other times. I think at our prior meeting, in fact. But I got to expand on it a little bit here, so thank you.

MS. WATTS: Thanks John and Sandy. Christine Davine?

MS. DAVINE: Thank you. First, I do think that these metrics can provide potential value to users and to the audit committee as we've been talking about, particularly in their oversight and their responsibility over audits. Some of the data that I've read on audit committee input, which I do agree with, is that there should be a flexible approach as you think about these metrics because one size doesn't necessarily fit all, and that the metrics should be considered based upon what the firms see as useful in driving their audit quality both at the firm level and at the engagement level.

Another point, I think, is for these metrics, there needs to be appropriate context around them so that a user can understand them, more than one metric, it's qualitative and quantitative. I think of the SEC's non-gap measure framework as kind of a good thing to look at because it's all about not dictating what measures are used by an issuer for non-gap measures or key performance indicators. It's about what is most useful to that issuer. What's the purpose? What's the use? How is it computed, all the disclosure around the context for it?

Another point in the questions was, what other metrics, perhaps, should be considered? In that regard, I think it's important to connect this to how it's going to interplay with the quality control standard that we've been talking about today, and how any of these metrics would fit into that communication about our quality control, which is, of course, the underpinning of how we achieve audit quality.

Another point I wanted to make on one of the questions on comparability, I do think that's a real issue to think about. And it's not just comparability among the firms, and there is certainly differences, even among the big four. There's differences in your structure. There's difference in geography. There's difference in client portfolio, the risks, the industries, the type of client. There's even differences within a firm based on, again, those same types of factors, and even engagement level to engagement level. I think that's where the context of these measure will need to come into play.

MS. WATTS: Thank you. That's helpful. Jeff Mahoney?

MR. MAHONEY: Thank you very much. Just a couple points. I know John already covered this extensively, as did Sandy, but our members view voting their proxy's as an asset of the fund. And so right now they have limited data points they can use when they look at voting for the reelection of the audit committee chair. Voting for the reelection of audit committee members as well as the auditor ratification vote. These metrics could give them an additional data point where they have very little information today to help them with those three votes. Right now, for example, say on pay is a vote that occurs annually at most companies. Our members have a lot of information, they would like more, but they have a lot of information in the proxy to help them decide how to take that vote. But on the three items, audit committee chair members and the audit ratification vote, they have very little to go on and this could be a helpful data point for them.

With respect to Jonathan's questions, I think they're very good. I think if I was Jonathan, some of the people I would talk to, or some of the organizations I would talk to where I think I might be able to get answers to some of those questions, is one I would talk to Greg Jonas who, as you know, who was at the PCAOB for a number of years in charge of this issue many of the six years I spent on SAG, he was the person in charge. I think he could answer some of Jonathan's questions. The other thing that's happened is over the years, we've been talking and debating this issue ever since the treasury committee report fourteen years ago, but now we see, as your paper points out, a lot of other regulators outside of the U.S. are now moving forward, requiring some type of metrics along these lines. So, if I was Jonathan, or the PCAOB staff, I would contact Portugal. I'd contact the FRC in the U.K. I would contact the Netherlands. FRC in Netherlands, they're going to put this information out publically. So those would be two that would be particularly important, and ask them some of those questions. I suspect you will get some of those questions answered from some of the foreign audit regulators who have decided they're going to go forward on this.

Those are my comments. Thank you.

MS. WATTS: Thank you, Jeff. Those are helpful suggestions. Jim Hunt?

MR. HUNT: Thanks very much, Jessica. I'm going to comment and follow up on some of the things that John said, so I'll try to be brief and I'm going to say them from the perspective of an audit committee chairman. And since I've been trained by the PCAOB, I'll say that these comments don't represent the companies that I represent, but they are my own, in fact. The consideration of quality is very localized, and in order to get to the macro of ultimate industrial protection, I think you have to begin with the micro, and that is the individual issuer level audit. Keep in mind, that in my view, audit quality is assumed at the individual issuer level, at the individual auditing level. You have an ongoing relationship with the audit firm, and unless something goes bad, you do assume it, to Sandy's point, you know, the negative being audit failure. So I think that's a first consideration.

In order, again, in order to get from the micro you do have to get to the macro. So putting more tools in the hands of audit committees for their consideration is very very important in my view. The PCAOB inspection reports are terrific, and they're used, but the timeliness of them is such that, on an ongoing basis, you'd rather have more contemporaneous information.

I think the fact of the matter is, if an audit firm gets in trouble, and it's noted trouble that's reported in the journal or elsewhere, the audit committee chairman will have a conversation with the CFO and the CEO and bring in the audit partner at the firm and kind of ask the question, okay what happened? And does it relate to us? And once you get the answer, no here's what happened, or no it can't relate to you, then you kind of back away from that consideration a little bit unless you think it's an ongoing cultural issue with the firm. Then you move further.

With respect to the comparison among firms of audit quality indicators you have at the intro level, that's going to be important if you're considering changing firms. But an -- with an ongoing relationship with a firm, you do consider that you have, I have good audit quality unless I hear otherwise.

I'll stop there. Thank you.

MS. WATTS: Thank you. Diane Rubin?

MS. RUBIN: Yes, thank you. I am also responding from the perspective as an audit committee chair and agree with everything that Jim has just mentioned. I will tell you that it's a challenge for audit committees to measure and evaluate audit quality. Your first question asked about public information that we use. And certainly the inspection reports are very valuable to us, and we use them to do a deeper dive with our auditor on their quality control procedures including independence training, internal inspections and what those internal inspections show, pre issuance reviews, their monitoring procedures. We discuss the experience of their national office, or their expert panels to make sure that there's sufficient depth of experience in our industry. And we talk about turnover. It is at the engagement level rather than the firm level because the turnover across their many offices is germane to us as what's the turnover locally at our engagement.

We've never discussed how many hours or other engagements the partner has or the partner's work-life balance. We do communicate with the auditor on a year round basis, so we have regular communication. We are fully aware he or she is spending on the engagement.

With regard to comparability of the factors of these performance metrics, I believe it is a challenge. On the firm level metrics that you identified, certainly training has a correlation to competence. But you don't really know what the training is in. Is it in technical? Is it in ethics? I do have comfort. I am from California, so I know that in California, the State Board of Accountancy mandates as, I'm sure in all of your states where you are, they mandate a minimum number of continuing professional education hours, including a certain percentage, significant percentage, in technical. California mandates eight hours of fraud education every cycle. It mandates ethics education. So I have a certain comfort level on training. If an additional metric was given of overall firm training, it goes back to Jonathan's point, if it's ten hours more than the minimum, is that ten times better? Or if it's twenty hours more than the minimum, is that twenty times --- it's hard to be comparable.

The other one is turnover. I think you can have some comparability of turnover within a region, but it's harder the more geographic you make it. It's a pointed time and you really need context to see whether that turnover issue is a significant one year to year or if it's a matter of time.

The other metrics for me, I think, the size of the firm as was mentioned before could be an issue. Some of the metrics mentioned a dollar amount invested in a learning center or the number of professionals who maintain independence policies. And this will certainly vary by firm size. Firm policies may enter into it. There was one metric that talked about the average years of experience by partner. Some firms have a mandatory retirement age. Sometimes it's fifty eight, sometimes sixty two, sixty five, and some firms don't have a mandatory age. So that will make comparability more difficult.

And then on the unintended consequences portion of the questions, I think a lot of thought has to be given to why you are asking for a particular metric and to realize that mandated metrics will drive behavior. And I did notice that one of the factors, one of the AQI's listed by one of the countries in the paper had client satisfaction as an AQI, and that may or may not drive quality because if you are rewarded for having a higher client satisfaction rating, that may lead you to demonstrate less professional skepticism, have a less --- be nicer. Be a friendlier auditor. That would not necessarily drive the kind of behavior that you want. It reminds me of a quote sometimes attributed to Einstein that not everything that counts can be counted. And not everything that can be counted, counts. I would just suggest that we really take a look at which metrics are the critical ones and to make sure we understand why we're asking for them.

Thank you.

MS. WATTS: Thank you, Diane. That was very insightful. Sara Lord?

MS. LORD: Great discussion, and agree with the concept of some of the engagement driven metrics being more actionable by the audit committee and by investors. One of the things I want to bring back that Jonathan talked about in his opening remarks, though, is scalability and concentration.

Everything that we talk about, every time you institute anything new, it costs money and effort and diligence. Another about the comments in the chat, two about, okay, this needs to not only be reported, needs to be consistent, it needs to be inspected. All of those things are great and they add value and cost. Both go together, right, and there's a trade off there. Some other recent comments said about 900 or so firms inspected. One of the audit analytic reports recently, like 600 of those audit one issuer, or one PCAOB registered company. What is the cost to that firm to be able to comply with this? Are the investors of that company actually using this information? I think that's something that is, as this moves forward, it would be really good to do an analysis around, for the largest companies, yes, investors are very interested and are doing proxy voting. What about all of the companies under the PCAOB's jurisdiction? Are smaller reporting companies acting in the same manner? Do they have the same need for this information? Is it useful to them? Is it going to be used? It's useful. It's useful information, but will it actually be used? Will it actually be used by broker dealer owners, people choosing those engagements? I think it could be something that maybe there's a phased implementation, but just more work to make sure we're not creating an environment where hundreds of firms say, you know what? This is what pushed me over the edge. This is another cost that I really don't see anyone actually using the information of, unless I don't want to do this work anymore. I don't think that would have the right impact that we want on the capital markets and on the choice product firms.

Thank you.

MS. WATTS: Thank you, Sara. Josh Jones?

MR. JONES: Thanks, Jessica. Similar to prior comments, I think this is a really great discussion. I think from DOI's perspective, maybe as Brian mentioned earlier, we tried really hard to provide more metrics in our reports over time. I think, to Jim and Diane's point, those end up promoting really robust discussions between audit committees and engagement teams on their particular audit, the audit quality reports. The metrics they provide at a firm level combined with inspections reports really can add to a very robust discussion around how the particular audit is designed and how it's being executed and really makes for, I guess we have found, really meaningful discussions that help the audit committee in their oversight.

I guess the interesting thing about that is it gets into the importance of context. We talked a lot about comparability. I think what I continue to hear is you really need to have that context in order to have any ability to drive comparisons because every audit's a little different. The staffing of every audit's a little different. The leverage model might be a little different. It might be different across firms, within a firm, lots of different variables. Being able to have that context is really important. One of the --- which is part of the reasons it's been on the agenda for a while is that's a really hard thing to do broadly.

One thing that, I guess, it probably starts with, is there a common, call it appreciation for how any measure could contribute to audit quality and maybe that's, I think Christine mentioned this earlier, maybe that's an area where if we're going to go down a path, maybe start with the PCAOB's project on the system of quality control where it's really articulating those key elements of what a system is intended to have and then use that as a platform to help build any thoughts on measures that can impact audit quality or have influence on audit quality and use that as a place to build from there just to help drive perhaps --- everyone may have different value judgements in terms of what might drive or influence audit quality, but having maybe a common platform around how some of those are derived in the system. That might be a helpful place to start the discussion.

MS. WATTS: Yes. Thank you, Josh. Bob Hirth?

MR. HIRTH: Jessica, I too appreciate all the comments that everybody has provided so far. I was a former audit partner, so I've signed opinions and looked at our teams and all of those things. I was on the SEIAG when Greg did his work. I thought the comment about tapping back into Greg Jonas' brain would be a good idea. I think, certainly, as we talked --- as Jim and Diane and others described their audit committee chair activities, and I thought about this ratification proposal that's in a proxy, where management is recommending a certain choice. Many other proposals have detail about how the management or others are thinking about it and why they're making the recommendation. Those audit committee chairs gave some good examples of the things they looked at. So you wonder if, beyond the recommendation of the firm, and I know this is maybe outside of our jurisdiction, maybe there could or should be some disclosures about the particular things the audit committee did to come to conclusion in discussion with --- or what management did with the audit committee to come to the conclusion that that was a firm that they recommended.

All the discussion has been good. It's kind of a trite saying, don't let perfection be the enemy of the good. We're making some good progress. There's a lot of perfection that's been described here. But we won't become a world class athlete by next Friday.

MS. WATTS: Thank you. No we probably won't. Jennifer Burns?

MS. BURNS: Thanks, Jessica. I wanted

to mention two data points and maybe build on what Bob said. We've made a lot of progress in this space looking back over the last ten years. The firms have made significant strides on what they're reporting. Earlier this year, the AICPA did do a survey. We got over a thousand respondents to that survey gathering data on the AQIs that firms currently use today. I shared that information with Barb and we'd be happy to talk through with you what we did and how we got that information. So just let us know.

Secondly, the CAQ did come out with an audit quality disclosure framework. I do think many firms use that, at least as a starting point. I do think that helps provide consistency in practice going to that point about consistency.

MS. WATTS: Thank you, Jennifer. Thanks for the suggestion, or the offer to meet. Brian Croteau?

MR. CROTEAU: Wanted to pick up on what Josh and others have said, Christine certainly, just in the engagement level performance indicators, or transparency data points. I think as you think about those, it's certainly helpful for audit committees in comparing to the firm level data points and asking questions relative to engagement, the specific engagement. But if you think about any individual data point, like turnover, the real question then is, if there is more turnover on the engagement than average at the firm level or in prior years, or however you want to measure it. The real question is what does the firm do about that? How do they replace those who have turned over on the team? How do they structure the team in response? That's what really matters at that point when there is turnover as we all know. That just through disclosure of whether there has been incremental turnover, or whether the turnover is above average on a particular team. That's the kind of information that would be most useful to the audit committee in understanding in their oversight role. That's very difficult relative to public disclosure, relative to each and every engagement, on the other hand. I think as you think about engagement level transparency data points, it's important to give consideration to how they would be used, the context in which one would need to understand that information. Then what the purpose of that information would be. And certainly, audit committees are at the right level and in the right position to act upon that information. What one does with that as an investor, if there were public disclosure about that without understanding the full context around it, I'm not so sure. Requiring disclosure around the full context of that may be pretty onerous in terms of the level of detail one would need to get into it at the engagement level.

I just offer that for consideration. I'm glad Jenn mentioned the CAQ document. Not only do we and others use that document as at least a starting point for consideration, but it's been updated, as we all think about over time, what we've disclosed so that we can continue to share among the profession some of the best practices relative to disclosure in our audit quality reports.

I just wanted to add that. Thank you.

MS. WATTS: Thank you, Brian. Robert Knechel?

DR. KNECHEL: Thank you. Just going to follow up with a couple comments. First of all, I want to clarify, I'm not against this idea. I just find it --- there's a lot of interesting challenges from an academic point of view to making it work. Let me --- what I'm hearing is a lot of discussion of the audit committee and I think that's absolutely where this conversation should occur. In theory, does the audit committee have the authority and power to be able to have these conversations directly with their auditors if they wanted to do so? The one thing they would not, probably, be able to do is obtain comparable information across engagements, which is where some of the potential challenges of comparability come in.

I just want to mention a couple research studies out there that have been done that maybe give you some counter-intuitive results. For example, the issue of client satisfaction was mentioned earlier and whether that is a good metric or not. There's actually a fairly large body of literature that shows that the better the relationship between the client and the auditor, the more superior the outcomes are when negotiating audit differences. That, in fact, there is a level of trust that allows the auditor to potentially get to a superior position. And that seems a little counter-intuitive unless you put it into some other literature other than pure economics.

There's also, particularly out of the Netherlands, there's an organization called the Foundation for Audit Research which sponsors a lot of research on audit quality over there. I'm happy to be on the board, so I know what's going on there. There's making a big investment in looking at audit teams. Some of the results they are finding are actually quite interesting. For example, it seems that on a large scale sample basis, and I hate to say this to some of my friends from practice, but the audit managers are probably more important for audit quality than the partners in that they have day to day hands on engagement. Another study that comes out of Australia, for example, points out that--- has found that it's actually time on task in terms of the engagement team's experience with the client that matters more. In fact, it matters more than industry knowledge as far as obtaining better outcomes.

All I'm trying to do is raise the issue that some of these things are actually much more difficult to interpret than would seem to be obvious when you look at the way the metric is written and calculated. Now that doesn't mean we can't do some large sample. I think Dane has put up a number of postings that suggest you can tease some of this out from data. And that's absolutely true. So that's something that --- This, I think, confirms that this is, again, a more complicated question than many people realize. I'm going to throw out my favorite quote. It's not Einstein, but HL Mencken, who was a journalist in the fifties in the United States once said that, for every problem there's an easy, simple solution that is wrong. And so, that's just the kind of trap that sometimes you have to think about.

Thank you.

MS. WATTS: Thanks, Robert. That's a lot of good research. John Bendl?

MR. BENDL: First, thanks to the PCAOB technical staff for getting me back in the panelist meeting from the observer meeting. It took a while, but I was able to hear and listen, but I wasn't on video and couldn't raise my hand. But I was able to hear everything.

Maybe just a couple quick comments because a lot's been said. I'm supportive of the effort to think about how Audit Quality Indicators could be imbedded in the performance of the audit. But I personally think that some of the comments around integrating this into how the audit committee engages with the auditor is probably, in my perspective, most productive and effective. I think the relationship between the audit committee and the auditor and the use of audit quality metrics and planning and throughout the audit would be very valuable at the engagement level and at the firm level. I think there's value for both. But probably more value at the engagement level. There's probably a way to design this that would drive a ton of value in that audit committee chair, audit committee, auditor relationship. So I would be more of a fan and supportive of that. I'm not suggesting we shouldn't maybe aspire to do more. But that would be the best approach from my perspective as a next step.

Looking at the indicators in some of the papers, there's a wide range --- Another thing that PCAOB could probably look at as part of their inspection program, when they're looking at the firms, how does the management committee of the firm or the board of the firm, what are they using to assess all the different aspect of people, talent, performance, defect, etc? And that might help build some of the research efforts in what would be good with audit quality metrics. Because, at our company, we have a ton of metrics on all those dimensions and how we run the company and how we oversee the company. So I think that would be a good point of research as part of the process of engaging with the firms and how they use that to run the firm, manage their quality, etc. I think some of that may explain, probably some of it doesn't, and how could we think about that in context of audit quality indicators would be valuable.

That was just a couple thoughts. Thank you.

MS. WATTS: Thank you, John. That's helpful. Sandy Peters?

MS. PETERS: I guess, you know, one of the things as I've listened to some of the comments that, I guess, strikes me, is that I think there's a perception that when asking for performance metrics, I think we're calling them EPMs instead of AQIs, that they are absolute that they need to be perfectly comparable before they're useful. And certainly we don't think they're perfect. When I hear those comments, I think of non-gap measures and communication and I think, well, we deal with all of these same issues in making an investment decision for the company. And they're a point for asking questions, and every --- I was an audit partner, so I get a little agitated because I know when I did a good audit and when I couldn't do a good audit because of all of these other factors. I think it's possible. It's not perfect. They won't be perfect. But investors want to see them because the discussion about the relationship with the client, the investor is the client. And they want to see the information. And certainly we want the audit committee to be actively engaged and move it along and do their duty and all of those sorts of things so we're not trying to mitigate the governance process. I think actually that came up a bit in the investor advisory group. We're just looking for how we vote this and how we evaluate this and how we make micro and macro decision with respect to engagements and firms. And I think that we need to think about the art of the possible not the art of perfection. Because there is something in here that is useful to investors and will get used. It will not, whether you are a small company or a big company --- if you're investing in a small company or a big company, you're capital is at risk and you care about this information.

I just feel the need to convey that all of these things about them not being perfect are exactly the same things we have with financial results and KPIs and other things that investors make complicated decisions. Think about it not as the --- we are investing in the auditor and we would like some information to know if our investment is well placed.

MS. WATTS: Thank you, Sandy. That's a

good perspective. Dane Mott?

MR. MOTT: Thanks. I mean, there's been a lot of talk with this whole audit performance or audit quality. I think we can kind of simplify it. Take all the politicization out of it and just call it audit characteristic measures or metrics. We're basically looking for descriptors to give us a sense of what's in the black box. What are the characteristics? Is it a top heavy audit or does the audit partner have eight other audits? There's a lot of different characteristic, and it's not any single characteristic that's going to be a defining point as most things in investing we take a mosaic approach and you pull together a lot of pieces of information, and with those information you come to a conclusion in the absence of complete certainty. We're used to that. We're used to dealing with information that requires nuance. If these --- the list of audit quality metrics that were in the handout, I think all of those are great plus more. There should be no issue about feeling like, what's too much. We can deal with information and they'll all be helpful context. And at certain times, and for certain firms, some metrics will be more useful to others, or the combination of certain metrics will be useful, more useful than others. But we have to have the data set first to start figuring out what those metrics will be and when they'll be useful. In the absence of information, we just don't know what's in the black box.

MS. WATTS: Thank you, Dane. Kecia?

MS. WILLIAMS SMITH: I have been sitting here trying to formulate my thoughts appropriately in the amount of time that we have. In the briefing paper, there was of course a table of what is being currently reported. And there were certainly that were highly reported across most of those firms or things of that nature. So my though is, to move this forward, is there a way to almost analogize to the recent SEC pay for performance, kind of, rule making that said here are some measures that you have. And some of these are standardized, and it looks like from the audit committees perspective, they are really looking at things related to turnover and things of that nature. And those are easily, to me, calculable. And we see that a number of firms are doing that, so dropping that down to an engagement level might be easy. But is there a way to think about it in terms of capturing these items that are already standardized, because they're reporting them in this kind of database discussion.

And then the other thing in the pay for performance rule that the SEC has issued, it gives the issuer the opportunity to list several other metrics that are relevant for them. I think this is where we get into this, do we standardize everything, make everybody do the same thing? But is there, as this discussion moves forward to authorization, is there a way to leave some flexibility to say here are X number of key performance metrics. We would love for you to report, let's say in from AP. And then give some opportunity to say, are there other items that are relative for your engagement that you can then share and disclose if put in proper context. That, to me, is a little bit scalable because then you can have entities say, this is the other thing that we discuss because of our industry. Or we're in the broker dealer space and this is why that matters.

But I was just thinking, as I'm hearing, it looks like all of us are in agreement to move this forward. None of these measures are going to be perfect. I come from academia. We know audit quality is crazy to try to proxy and evaluate. But at least, to me, in this chart, we see some measures that most everybody is doing that we can almost start with to get somewhat standardization across and then give some flexibility for additional disclosure and discussion in whatever reporting format that have.

So those are my thoughts. Thank you.

MS. WATTS: Thank you Kecia. Susan Duross?

MS. DUROSS: Hi, good afternoon. I just wanted to make a couple comments. First of all, I definitely agree with this plan and I've enjoyed listening to everyone's opinions on these topics. One of the things that really sticks out for me is that only four percent of fraud is caught by auditors. So whether or not we have these metrics already in use, I think we do need to dig in a little bit further and make sure that we are focusing on the things that are truly indicative of a quality audit as opposed the ones that were obvious failures. Some other people have mentioned as well, I'm obviously quality control, something that's not specifically mentioned. I see we're doing a lot of, how managers, how many partners. But I think a big part of that quality control is that, when do the people know when to escalate? When do the escalations occur? How many of those decisions are being made by lower level people when they should be escalated? I think that would be a clear cut thing to consider.

I'm obviously experienced in turnover. The percentage of managers and directors that are involved in the audit, in my personal preference, I think when we start to get into the fees and the salaries, investments in different generic tradings that might not even apply, like has been commented before. I would place less emphasis on that and maybe place it in places that are not quite so obvious.

There are two other things I think we should probably address that I don't see here, and it would be the use of automation and the controls around any automation that's used in the audit. And then, this I don't know exactly how to fit it in, but I'm interested for your comments. There's always this impression that changes year to year are bad. From my experiences, and I do specialty work for auditors, there's obviously --- people don't want to have a change year to year, but sometimes it's simply improving the audit report and improving what you're reporting. I don't know if there's anything we can do about that or not.

I had a couple last comments just with

regard to the questions. I think that if you're going to be someone that's going to cover an issue or client, regardless of size, I think that the rules should apply to everyone. I do also think that all this information, I think it was Dane that said, we can have all the information, but if it's not easily accessible --- I love the idea of form AP being a database. I think that's a great idea. I'm in full support of all these things. I just want to make sure we really think through and focus on the ones that will mean the most.

MS. WATTS: All right, thank you. I don't see any more hands, and we've almost come to the last bit of our session, or our time here. We could end a few minutes early and then come back for our final session which is fraud at 2:30. All right?

Thank you.

MS. VANICH: Yeah that makes sense. Thank you, everyone. See you at 2:30.

(Whereupon, the above-entitled matter