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September 21, 2015

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

Dear Members of the Board:

Thank you for the opportunity to comment on the "CONCEPT RELEASE ON AUDIT QUALITY INDICATORS." Accompanying this letter are my responses to questions in the Release.

Your discussion paper describes the difficulty of gauging quality of service organizations responsible for reporting on the quality of reporting by others. Certainly, quality reporting is a layered responsibility. Investors need the third party audit to assure market investment decisions are based on facts, properly reported pursuant to prescribed and appropriate accounting and audit standards.

As your discussion makes clear, quality is hard to see and, sometimes, errors are difficult to find. You liken audits to "credence goods," a good correlation. It would be good to have indicators that show the condition and trend of the ability of auditors who do this work.

For your consideration, I determined several overall suggestions. They are as follows:

1. Use some version of the former Generally Accepted Auditing Standards as the platform for the Audit Quality Indicators. Without such a platform, the suggested indicators lack a base and seem to be a more random search for good and bad.

2. Complete any work necessary to rename (e.g. "General Audit Standards of the PCAOB") and affirm some revised, if you feel revision is necessary, form of the ten former Generally Accepted Auditing Standards. These Standards were adopted by the PCAOB in 2003 as "interim." They still are described as "interim." Just as you feel "…Professional consensus is no longer sufficient to establish auditing standards…"[1] the interim description implies something weaker than what good audit work demands.

[1] PCAOB Release 2003-025 December 17, 2003, page 8.

3. Avoid subjective Audit Quality Indicators. This project should not promote or become a satisfaction survey, popularity contest or marketing material; rather, it should be a means to identify who is making the necessary investments and doing good, effective audits.

4. Do not use the word “client” to describe the relationship of the company being audited to the auditor. The term implies and reinforces the auditor having a stronger responsibility to the company and management rather than to investors. “Client” is commonly used in your discussion.

5. Try to find an Audit Quality Indicator for auditors’ “Acceptable Audit Risk.” Question 60 seeks a definition of “high risk.” Common definitions apply to the company being audited, but I think consideration must be given to “acceptable audit risk,” which can be driven by deeper issues within the audit firm. “Acceptable Audit Risk” to an auditor can be high risk to investors.

Please consider all my answers. The answers contain more discussion of the above points. I apologize for any misunderstandings that may degrade my answers. I look forward to comments from others and to your further work. Of course, I would be glad to visit about my suggestions. Any feedback is welcome.

Again, thank you.

Sincerely,

Gilbert F. Viets

**Public comment requested on the following 73 questions:**

**Question 1. Is increasing knowledge about, and use of, the audit quality indicators discussed in this release likely to provide insights about how to evaluate, and ultimately improve, audit quality? If so, why? If not, why not?**

**Answer:** The project needs a platform upon which to base this effort. The platform should, in my opinion, be something akin to the ten "Generally Accepted Auditing Standards," not mentioned in this Release.[2] Today, many auditors have difficulty recalling the ten "Standards," a condition which existed before you concluded "…Professional consensus is no longer sufficient to establish auditing standards…"[3] Like Gresham's Law, bad, or misunderstood, standards may have driven out good Standards.

The concept that some portfolio of AQI could provide insights for evaluating auditors and thereby drive better audits has great logic. But, the definition of a good audit is not consistent among parties. The judgments can be in important elements such as cost, flexibility in applying accounting principles, selection of audit techniques, scope of testing, evidence, independence and many others.

The success of this project would be greatly enhanced if it reinforced some version of the ten Generally Accepted Auditing Standards. The first essential level of context will then be achieved, i.e. identifying the generic "what auditors are supposed to do" on every engagement and tying the AQI to those Standards.

You may decide the doctrine of old (now interim since 2003) ten Generally Accepted Auditing Standards is out of date and needs revision.[4] If so, fine. But make that change, rename them and, then, develop AQI. You have successfully made many good revisions to auditing standards and this comment is not meant to criticize that work. The best AQI will relate back to a commonly implicit structure which can be reinforced by the AQI.

**Question 2. Are the AQI project and some number of the 28 specific indicators described below, likely to build a strong knowledge base to enhance discussions of audits among those involved in the financial reporting process or other users of AQIs?**

**Answer:** Yes, but the anticipated discussions will be improved if AQI are directed at some form of Generally Accepted Auditing Standards, as discussed in answer to Question 1.

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[2] Not quite true. On page 10, Generally Accepted Auditing Standards is mentioned in a footnote to a footnote. The more generic term "auditing standards" is mentioned only three times based on my search using software tools.

[3] PCAOB Release 2003-025 December 17, 2003, page 8.

[4] So far, the PCAOB has made only one change to the interim Generally Accepted Auditing Standards: the word "competent" was changed to "appropriate" in describing evidence.

**Question 3. Can the development of audit quality indicators, as described in this release, have unintended consequences, either positive or negative, for audit committees, audit firms, investors, or audit or other regulators? What are they? Can any negative consequences be alleviated? How?**

**Answer:** Yes.

AQI can be helpful for evaluation. But, if the AQI stray from an established base into opinion preferences outside that base, the AQI risk expanding the "expectation gap."

**Question 4. What is the nature of the context that those using AQIs as a basis for analysis and discussion will generally require to be able to benefit from that use? Is the information required to build that context available? Is access to the necessary contextual information feasible?**

**Answer:** The first level of context should be some form of the ten Generally Accepted Auditing Standards. The Standards would provide a common base for a reasonable person to judge whether the Standards appear to have been addressed. The Standards are available, logical, relatively simple and not subjective.

I think this project will be very good at determining sources and availability of information. Much of the information is available, but not in usable, easily retrievable form. Access is feasible and should be pursued. There are legal limitations for some information that could be useful, such as health records, sealed court records, private settlements. But, these are societal protections that cannot be changed easily and should probably not be changed.

**Question 5. Should any indicators be omitted from the list proposed in this release? Which indicators? Why?**

**Question 6. Should any indicators be added to the list? What are they? Why? How would they be quantified?**

**Question 7. Which indicators are likely to be the most useful in evaluating audit quality and informing discussions of audit quality? Why? The least useful? Why?**

**Answer to Question 5, 6 and 7:** I arrayed the twenty-eight proposed AQI on a spread sheet under the ten Generally Accepted Auditing Standards. Only thirteen fit neatly under a particular Standard; fifteen did not. Of the thirteen that did relate directly to a Standard, they applied to only four of the ten Standards. Six of the ten Standards had no AQI with direct connection. I believe that suggests an improvement that should be considered for the study.

Your discussion precedent to these questions and to AQI first divides the concept into perspectives of: 1) "…an auditor's operating in full compliance with professional auditing standards and applicable law;" 2 "…an auditor's meeting the needs of a public company's investors, and the marketplace…;" and 3) "…facilitating, as part of the process, the timely and effective supply of information…" You state "…robust audits… ***provide*** reasonable assurance [that] the financial statements are free of material misstatement," and ***"present fairly, in all material respects…"*** These are all good things, but audit standards do not require giving an opinion that statements are free of material misstatement or that the statements present fairly; they require the auditor to say whether or not the statements do or do not that.

You risk expanding the "expectation gap" by including responsibilities of company management, investors, audit committees, boards and government. The auditor is not the only responsible party.

As presented, the auditor is characterized as an enforcer rather than a reporter of financial presentation. You thus risk disconnecting the AQI from auditor Standards and switching to some sort of market study, perhaps to the point that the AQI should be renamed "Financial Reporting Quality Indicators" (FRQI), among which, without doubt, is the work of the auditor.

An observation: All ten Generally Accepted Auditing Standards relate to the engagement level. Firm level efforts may support application at the engagement level, but no Generally Accepted Auditing Standards apply to firm level activities. All Generally Accepted Auditing Standards must be applied at each engagement level. If not, audits are far less reliable.

However, for this project there certainly is room for AQI that measure firm wide support for engagement level success of audits.

If the project were directed at some form of the ten Generally Accepted Auditing Standards, I think some of the proposed AQI would drop out and others would be added; investors would not be led into unrealistic expectations of auditors; and, the "expectation gap" would not be widened.

**Question 8. Which indicators, including any mentioned in response to Questions 6 and 7, are in use today? How are they being used? Which ones are relatively more effective? Less effective?**

**Answer:** Extensive research is necessary to answer this more accurately. For the twenty-eight, some use is made today for each of them. I believe the more effective ones for all are:

1. PCAOB inspection results (#19), and

2. Trends in PCAOB and SEC Enforcement Proceedings (#27)

These indicators provide something useful to all. The reporting comes from a third party with specific responsibility for audit effectiveness. The detail is supported by published written reports explaining how conclusions were reached, providing basis for others to decide whether or not they agree, and the descriptions enable others to determine if the described fault means failure to meet "…standards of the Public Company Accounting Oversight Board (United States)…"

Other proposed AQI now exist sporadically as "one-off" reports lacking consistency in preparation and lack third party objectivity.

Accounting firms use many indicators to gauge performance. They keep some of this information private. Audit committees ask for this information, but must apply the same skepticism to the information that auditors apply to information received from officers of the companies they audit. The information needs corroboration if it is critical.

**Question 9. Definition of the Indicators. a) Are the indicators clearly defined? b) Which indicators would benefit from a clearer definition? c) Are the suggested methods for measuring each indicator clear? d) Are there other ways to measure particular indicators that would be more effective? e) While most indicators depend only on data from a firm's public company practice, some include information concerning workload from both public company and nonpublic company practice. Are there other indicators that would be more useful if they were extended to the breadth of an audit firm's practice?**

**Answer:** I have not attempted to redefine, rewrite or otherwise modify the AQI suggested, other than for suggestions in answers to specific questions. My suggestion for making them all clear is to first establish them by reference to some form of the ten Generally Accepted Auditing Standards. If that is done, purpose will be clear and the proper method of measurement will be more apparent. There is much work left to identify the best source of information for the AQI and how to gather that information.

**Question 10. Do particular indicators risk becoming too complex in operation to reflect the reality of particular audit situations?**

**Answer:** Yes, several have this risk and care is needed in application. AQI do not apply to natural sciences; these standards are set by the provider, human beings. Thus, providers and users will follow different standards or someone has to provide standards to which all can agree. What does "Quality" mean in Audit Quality Indicators?

**Question 11. Does the time lag between an audit year and the availability of information for many of the results indicators (e.g., whether a restatement has occurred) affect their value? How?**

**Answer:** Yes, but time lag is less of a problem than inaccuracy, incompleteness and improper interpretation. Time lag is helpful for allowing refinement of data. The PCAOB finds comfort withholding information in Part II of its examination of audit firms, and then releasing it only if the firms do not respond satisfactorily. Thus, important information may become available to audit committees, investors and other firms for up to two years after the occurrence. Does that procedure add value or detract from it? It is kind of a trade off. Impatience can be the worst enemy of good data.

**Question 12. Are there one or more indicators among the 28 that are superior to other indicators on the list and cover the same subject or subjects, so that one or more indicators are unnecessary for that reason? Please identify the redundant indicators and explain.**

**Answer:** Yes. Indicators 5, 6 and 7 are redundant.

**Question 13. Are data available for each of the indicators? To what extent, specifically, is the data already broken out in audit firms' operating systems?**

**Answer:** My experience suggests that most of the data is available in some form in the firms' records. However, the form of the data and the methods by which it is collected will vary greatly. The individual influences include the roles of insurance carriers, firm counsel and non audit practitioners in the firms.

**Question 14. The indicators operate at the engagement level, the firm level, or in most cases both. a) How should "engagement level" be defined in the case of a global audit in which work is referred to one or more "other auditors" (whether or not the firm or firms involved are part of the engagement firm's global network)? Who should make that determination? b) Would one or more of the indicators be more useful if it also operated at an audit firm's "office" or "regional" levels, not merely at "engagement" and "firm-wide" levels (so that, e.g., the percentage of an office's work devoted to a single large client would be known)? Which indicator or indicators? c) Would one or more of the indicators be more useful if it also operated at the level of the audited company's industry or economic sector (so that, e.g., indicators for the audit of a particular bank could be compared with the average of indicators for all of an audit firm's banking clients)?**

**Answer:** I believe the best answers to these questions must come from the firms; they are the source of the information and they maintain systems that give them information to manage their risk and operations. Remember, though, the firms have two natural primary incentives: 1) maximize cash income, and 2) avoid risk. They are, I think not improperly, structurally restricted from arriving at the best answers for others who have different objectives.

**Question 15. What are the elements of "context" required for successful analysis of the 28 potential AQIs? Are those elements ordinarily available to AQI users? If not, is it feasible to make the elements of context available?**

**Answer:** Earlier, I discussed the first important context of the measurements, i.e. some form of the ten Generally Accepted Auditing Standards.

I think there are two additional divisions under which context can be summarized: 1) the entity being audited, so this includes such items as industry, economy, management, business model, systems, etc., and 2) the audit firm and this includes incentives, the partner, other professionals, firm structure, etc.

Investors in public companies have much information about the entity in which they invest due to vigorous reporting requirements of the U. S. Securities and Exchange Commission. They have little information about the audit firms because they are private entities. It is feasible to make that information available. Because there is such a concentration of services (the Big 4), it is wise to require some form of mandatory public reporting for major firms, including partnership arrangements and audited (perhaps by the GAO) financial statements; then, there would be much more context from which to analyze audit quality.

**Question 16. Comparability. a) How important is comparability to the value of AQIs? b) What are the most important elements of comparability in the analysis of AQIs? c) Is comparability more likely to be fostered by firm-wide data (either within or among firms) or data focused on industry, regional, or office practices? d) Does the existence of differences among firms in the way certain matters (e.g., classification of personnel) are measured affect the value of AQIs if those differences are disclosed? If they are not disclosed?**

**Answer:** Comparability is helpful if the data can be developed within a satisfactory range of principles governing its creation. Otherwise, it presents a risk of misinterpretation. I think comparability should be limited only to those areas that meet appropriate standards.

“Firm-wide” is probably the wrong term. Firm-wide would include non audit services, which generally is now the majority of the business. In short, there are many “cuts” that could be useful to understand the firms. But, you must get back to the standard to be used. For example, for AQI number7 on your list of twenty-eight, when does a person achieve industry expertise so that they may be categorized as such for this reporting?

The value of the allegedly comparable information is affected by differences in the way matters are measured, whether disclosed or not disclosed. As with financial reporting differences, footnotes become a complex way to overcome the fact that the numbers for company A are very different from those of company B. Unnecessary complexity is not a friend of better understanding.

**Question 17. How should audits of different size and complexity be weighted in the calculation, analysis, and discussion of firm-level data?**

**Answer:** As a practical matter, this would be difficult at best. There may be some correlation between size and complexity, but it is not a direct correlation, so an AQI based on this could risk blessing a false notion. For example, consider size. Where should meaningful lines be drawn: revenue?, assets?, market capitalization?, number of shareholders?, audit hours required?, number of transactions? and many others. I believe that most audit committees are now giving due consideration to apparent competence of partners without creation of questionable analysis of the type of data suggested here.

**Question 18. What are the costs and obstacles to audit firms of compiling the relevant data? Can data be created at reasonable cost for any indicator for which they are not now available? If not, is there another indicator of comparable scope, either among the 28 or otherwise, for which it would be less costly to obtain the necessary data?**

**Answer:** The cost and obstacles can be large enough to cause concern for all, particularly if there is question about whether the information would be helpful. I suggest starting with a smaller number of manageable AQI, learn from those experiences and incrementally increase the list each year depending on what is learned.

**Question 19. In what situations could generation of AQI data impose collection or evaluation costs (whether involving specific indicators or the use of AQIs generally) without commensurate benefits? Could those costs be reduced? How?**

**Answer:** Those that produce negative cost benefit are those that are inaccurate, superfluous, unchallenged or unused.

For the sake of identifying examples that could be questionable, I think the following AQI have flaws that likely will make them costly to gather or contestable in their results and largely disregarded: 4, 5, 7, 9, 13, 14 and 23. I realize others may disagree, but my answer is based on the subjectivity of these AQI, not the subject matter of the issues. Cost can be reduced by not institutionalizing these as AQI, but encouraging specific enquiry by those who have interest related to the subject as applicable to specific situations.

**Question 20. Could the collection and evaluation costs of AQIs be a greater economic burden for smaller audit firms than larger audit firms? Could this burden disadvantage smaller firms in competing for audit business if perceptions of quality are driven by the indicators?**

**Answer:** An interesting question that should be answered by the smaller firms.

**Question 21. In what ways should the various indicators be evaluated or field-tested?**

**Answer:** Field testing must include the collection, reporting and use of AQI. Failure at any of these points makes the AQI worthless. Once identified, I would suggest field testing in that sequence, once there is general concurrence by the staff that the AQI would likely work. There is no need to proceed to "reporting" and "use" if "collection" is impractical.

**Question 22. For what class or classes of users would AQIs be most valuable? Would some AQIs be more valuable than others to various classes of users?**

**Answer:** Audits are for investors. The ultimate winner is the investor, and that is the only one on which your effort should focus. Others will get benefit, but it will be "trickle down." The benefit for others may be to recognize the need for improvement in what they do.

**Question 23. Are there one or more groups, in addition to audit committees, investors, audit firms, and the Board and other regulators, that the Board should consider to be primary users of audit quality indicators? If so, what are they? Does their need for the indicators, in each case, differ from those of other primary users?**

**Answer:** Yes: Insurance companies that provide coverage to any of the firms; credit departments of financial institutions; law firms that deal with the accounting firms or investors; college students and accounting faculties, are among the "other" major groups. Also, there are other industries that are pursuing how to improve quality of their difficult to evaluate services (credence goods), such as the health care industry which is also trying to determine proper quality indicators as they change their industry to a population management model; they will be interested in how you are approaching the need in the audit industry. You may benefit from what the health care industry is doing in this regard. Obviously, the needs differ for each group. I suggest, however, avoiding concern for the other groups and simply keeping the eye on the prize: protecting investors through the best audits possible.

**Question 24. Does the discussion of the uses of the indicators identify all likely uses? If not, what other uses should be considered?**

**Answer:** No, the discussion does not identify all likely uses. There is no need to do that if the focus is kept on protecting investors via integrity of markets. If the project begins to introduce and consider all likely uses, the process will impede success, i.e. slow, cloud, dilute and maybe even prevent.

**Question 25. How important to the usefulness of the indicators by audit committees and other users is AQI engagement-level data? AQI firm-level data for the audit engagement firm?**

**Answer:** Engagement level data is of primary importance to the audit committee. Firm level data is important to show two things: 1) does the firm support an audit at the engagement level? 2) do other firm activities, objectives and organization detract from audit engagement responsibility?

**Question 26. To what extent do audit committees already receive AQI like information from their audit firms? What are the most significant gaps in the information they receive compared to the information that could be contained in the potential AQIs?**

**Answer:** It varies. But, generally audit committees receive very little of the twenty-eight types of information from the firms. Firms have uniform formats for audit committee presentations that appear to come from some firm wide database of broad descriptions for such presentations tailored to certain industries and types of companies. It is usually voluminous and not very interesting to read or hear. Auditors list the required disclosures about independence, perceived risks and general approach, but even those seem to be generic, canned, standardized language based. Another common characteristic is that the presentations will be on high grade, glossy paper in a variety of bright colors.

Audit committees must probe for specific information if they want to get into the type of information described in the concept of AQI. I am sure many committees do, but at their individualized initiative.

**Question 27. To what extent would engagement-level AQIs be useful to investors? AQI firm-level data for the engagement firm? What AQIs would be most useful? Why?**

**Answer:** Non diversified investors should want to see engagement and firm level data if the financial statements are elements of their investment decision. They probably would best get the engagement level information from the audit committee in that case.

For any well diversified investor, firm wide data supplies most information that should be required.

I believe well diversified investors should assess from time to time if there is a concentration of investment value audited by one audit firm, not unlikely with only four firms doing more than 95% of the audits. If that is the case, it would be prudent to consider the risk that may be present from any threat the firm may discontinue its audit practice for any reason or if the firm's "acceptable audit risk" is high.

**Question 28. Should engagement level AQI data be made public in whole or part? Should firm level AQI data be made public in whole or part?**

**Answer:** Firm level AQI data should be public. Engagement level AQI data should not be public. However, remote investors should have a means of access to the audit committee where they have a concern about engagement level AQI.

**Question 29. How important to the usefulness of the indicators by, audit committees, audit firms, investors the Board and other regulators, and others is the public availability of firm-wide AQI data for the audit firm that performs a particular engagement? How important is the public availability of AQI data for other audit firms of comparable size?**

**Answer:** It is very important that this information be public. For those who claim competence, independence, and sufficiency of effort to certify and support information about public companies to others, information supporting those claims should be public.

**Question 30. To what extent would firm-level data be more useful, for all or some indicators, if it were broken out in industry categories?**

**Answer:** I do not believe industry data is crucial. What is important from a firm level is indication of the firm's commitment to support audit engagement level quality. The commitment is demonstrated by measures that show audit training, research and development of audit methods, significance of audit practice to the firm and the degree to which the firm succeeds in audit discovery. For discovery, unfortunately, the data is pretty much confined to instances of failure to discover; there is no data for "discovery and fixing" before the report goes out, only for failure.

**Question 31. Would it be useful to phase in any ongoing AQI project? For example, should the project be voluntary for at least some period? If phasing is a good idea, what steps should the phasing involve? How should any phasing of the project be monitored?**

**Answer:** Yes, it should be phased. A good approach would be to select a smaller group of indicators, probably the least controversial, least subjective and most likely to succeed, not all twenty-eight. The initial AQI could then be followed by some planned schedule of additional indicators, subject to reconsideration as you learn from experience. Voluntary participation has significant flaws, I believe, because it may conceal problems that would be encountered on a broad application, and result in overall slower success of AQI. Volunteerism is good, but it has a built-in bias.

Another possible way to "phase in" is to make it first applicable only to the Big 4. Doing so has the advantage of minimizing the parties with which you must initially work and covering the auditors of more than 95% of the registrants.

**Question 32. How should AQI data be made available, either during a phase-in or ultimately? Which of these approaches is preferable? a) By audit firms voluntarily to audit committees, at the engagement level, the firm level, or both? b) By audit firms voluntarily to the public, at the engagement level, the firm level, or both? c) By audit firms on a required basis to audit committees, at the engagement level, the firm level, or both? d) By audit firms on a required basis to the public (whether directly or through the Board), at the engagement level, the firm level, or both? Would disclosure by audit firms directly or by the Board be preferable?**

**Answer:** While much of the information will originate from the firms, much credibility will be added if it is assembled, reviewed and made comparable by a third party, preferably the PCAOB. I think the Mission and Vision, if not the budget, of the PCAOB encompasses this kind of effort. Some third parties could do a part of the work. For example, I think the American Accounting Association could be an important contributor by enabling access to PhD's, their independent thinking and their research. I would avoid using accounting industry groups such as the AICPA and the Center for Audit Quality, even though they may have much to offer and I respect their roles; nevertheless, not disrespectfully, they have a natural bias.

**Question 33. Should the Board consider steps to require audit firms to make engagement- and firm-level AQI data available to audit committees? To investors?**

**Answer:** Firms should provide AQI engagement level data to audit committees under standards set by the PCAOB. Compliance could become part of the PCAOB examinations. Firm level data should be from the PCAOB. For investors, firm level data should be available publicly on the web site of the PCAOB and the firms. Engagement level data should be accessible through the audit committee.

**Question 34. Should distinctions be made, in the timing or nature of AQIs, among the audit firms that audit more than 100 public companies? What potential distinctions would be most useful?**

**Answer:** No. Public companies accept reporting obligations; their auditors should do the same. The judgment being made is "how god or bad is the auditor?" If the focus is on the auditor, the standard and the measurement should be against some form of the ten Generally Accepted Auditing Standards, unaffected by the size of the company being audited or the industry in which they operate. If a distinction is made, it should be a risked based decision, probably based on market capitalization.

**Question 35. Should smaller audit firms be treated differently than large ones in designing an AQI project? What would small mean for this purpose? Having less than a certain number of auditors? Auditing 100 or fewer public companies per year and not being part of a global network of firms?**

**Answer:** No. Treating auditors inconsistently based on size by some measure could easily become a selection criterion for choosing the auditor; e.g., auditor A could be selected solely because it does not have to report on certain quality issues. My bias is that any firm that agrees to become the auditor of a public company necessarily subjects itself to complying with the standards of information sharing. The questions to the smaller and bigger firms must be the same; the answers to the questions may be different. That is what the AQI are supposed to reveal.

**Question 36. Should the size of the audited company set a limit on initial application of an AQI project? What would an appropriate size be? Should the fact that a public company is not a listed company affect the way AQIs apply to it?**

**Answer:** No. N/A. No.

**Question 37. How should the nature of the industry affect the design of an AQI project? For example, is the nature of audits of investment companies or employee benefit plans sufficiently different than that of other public companies that the former require their own set of AQIs?**

**Answer:** Nature of the industry should not affect the design of the project. First, many registrants operate in multiple industries forcing some sort of forced categorization that may dilute the results. Perhaps just as important as industry is the type of financing used, e.g. leasing, owning, partnering and many other variations that may be as significant as industry. The future of AQI may consider attempting such refinement, but only after some success is first demonstrated in more common, broad AQI that measure conformance to some form of the ten Generally Accepted Auditing Standards.

**Question 38. Would excluding certain types of audits from an AQI project distort the results of firm-wide public company audit comparisons, or suggest that only industry-based comparisons are valid?**

**Answer:** No. However, some industries offer more risk, but Generally Accepted Auditing Standards and standards of the Public Company Accounting Oversight Board (United States) require more work in those industries, not dissimilar to the higher rates of return required for debt and equity in higher risk industries.

**Question 39. Should an AQI project apply to brokers and dealers in securities? a) Should the project apply to carrying brokers, introducing brokers, or both? Should it apply differently to broker dealers that are subsidiaries of public companies than to broker-dealers that are privately-owned? b) What indicators would be most appropriate? Would indicators aimed at the special regulatory requirements for broker-dealer reporting be advisable? c) Who would the users of the information be? d) Do the variations within the audited population make comparability of information difficult?**

**Answer:** AQI should apply to the auditors of broker and dealers.

**Question 40. How might the description of each indicator and the illustrative calculation be improved or replaced by other approaches that would be more effective or easier to use?**

**Answer:** Set an objective for simple clarity to a person of average intelligence. Compare the read out (result) to the speedometer, odometer, temperature gauge and tachometer on a car's dashboard. The more commonly understood, the easier it will be for people to ask questions that may lead to detection of a problem with the gauge or with the auditor. Do not use too many gauges and do not make them obtuse. Test the AQI on panels of ordinary citizens. Do they make sense?

**Question 41. To what extent should the description of one or more indicators and its illustrative calculation be revised to make clear that all indicators are evaluated in context?**

**Answer:** Avoid suggesting that a bad reading on indicator A is always offset by a good reading on indicator B. People are capable of making their own decisions. Avoid taking that as your role.

**Question 42. To what extent could any suggested indicators produce uninformative results either because of the context in which they operate or because the variables they involve can be managed for results that emphasized form over substance?**

**Answer:** I think the flaws that exist in some suggested indicators are due to subjectivity and lack of focus on some form of the ten Generally Accepted Auditing Standards. Those indicators are capable of uninformative (or worse, misleading) information. AQI are not based on natural laws of science, so there is no base from which to "prove" them. All you can do is wisely select some limited number of things to measure that tend to show effort and results for achieving responsible fairness. Even the accounting principles, to which auditing is directed, are moving targets, a man-made base of rules (substituting for nonexistent natural science) using currency as the measuring stick which itself is a constantly changing in value.

**Question 43. How should the indicators be applied at the firm level? Are different "firm" perspectives (firm-wide, region, office, industry practice) appropriate for different indicators? Is firm-wide data always appropriate for those indicators that call for firm-level data?**

**Answer:** Initially, firm level indicators should be applied at the legal entity level, which for the major firms is the U. S. partnership. In doing so, the indicators then are synced with the audit contracts (engagement letters) which generally restrict legal responsibility to only the legal entity signing the report, not to extended participants, e.g. non U.S. firms. If the indicators are influenced in a negative way by an office, region or industry practice, management pressure and peer pressure within the firm will have a tendency to correct the problems. Once established, consideration may be given to more granular reporting, but I would advise against that now.

While I would like to somehow see international performance measured since business globalization is continually expanding, I do not believe you now have the authority to assure accuracy of the data. Your best contribution is to set the best example for the rest of the world.

**Question 44. Would addition of a calculation of staffing leverage indicators that measures the ratio of partner and manager hours to total audit hours be helpful?**

**Answer:** Yes, it would. There is a large range of ratios that result from difficulties encountered at the engagement level, but on a firm wide level, this ratio could be a meaningful ratio. I think the difficulty here may be to decide what hours should be included in the partner and manager hours. First, most relationships include a tax responsibility (prepare, review the return, review the accrual, sign the return, consult). Should these hours be included? Some partners have told me, they are not on the audit, but rather they are the "relationship" partner. Should those hours be included?

If the firm is responsible for the audit from the standpoint of its engagement contract, I tend to believe all partner and manager hours (audit, tax, consulting) should be included. To me, they all must be aware of the audit responsibility and related ramifications.

**Question 45. How should technical accounting and auditing resources be measured in a situation in which those resources are retained from outside the firm conducting the audit?**

**Answer:** Contracted resources should not be included in the indicators. While these can be very good avenues of obtaining expertise, the indicators should be limited to the legal entity internal resources provided by partners or employees. Indicators will then highlight operating differences about which users of the data then may ask appropriate questions for consideration.

**Question 46. How should this indicator count participation by audit firm personnel and managers who have dual skills (i.e., as accountants or auditors but also as experts in another relevant discipline)?**

**Answer:** While it may seem harsh, any firm personnel who work with a company audited by the firm should be counted as auditors. First, it is simple. Second, if a firm is the auditor, that is ***the job***; there are no secondary roles. All have responsibility. Such a procedure seems to provide the least opportunity for manipulation that clouds transparency.

**Question 47. In measuring experience, would overall experience (including auditing and accounting experience) in the relevant industry be the best measure? Would such a measure disadvantage smaller firms? Would a measure based on number of audits performed in a particular industry be a better indicator for smaller firms?**

**Answer:** First, someone must determine what industry designations are to be used. If it is SIC codes, there are more than a thousand, too many to be meaningful for the purpose of these indicators. Within the industry designations chosen, I think each person with a claim as an industry expert should be included as an expert in only one industry, the one in which they are most expert as an auditor.

There may be arguments against "pigeonholing" talented people by this restriction, but that is preferable to claims of being "all things to all people."

Generally, I think industry categorization is something for later phase-in. Now, focus on the ten Generally Accepted Auditing Standards.

**Question 48. Are there ways to measure the industry expertise of a firm's audit staff against its public company client base? How?**

**Answer:** There will be many ways to do this, probably too many. Industry expertise can be measured by numbers of people, hours devoted to the industry, inclusion or exclusion of experience with previous employers, period of time during which the hours were incurred, college degrees and many others. Likewise, the public company database can be measured in terms of number of companies, market capitalization, revenue and many others. Permutations are great. Of all of these, I tend to think that a relatively short arbitrary time frame, such as the most recent two years time spent on audits in the industry, relative to the market cap of the public company database as of some recent arbitrary date (such as December 31) would be best. But, there are many questions about using this indicator that may render it as possibly misleading resulting in more damage than good. Do not do it now.

**Question 49. Would adoption of the commonly-used Standard Industrial Classification ("SIC") codes issued by the U.S. Department of Labor be appropriate to define industries for purposes on the indicators?**

**Answer:** Yes, but at a level less than the total number of SIC.

**Question 50. Should a distinction be made between partner retirements and other turnover in applying this indicator?**

**Answer:** The most meaningful presentation would be a presentation with three categories: 1. retirements due to mandatory age limitations; 2. early partner separations at firm initiative; 3. early partner separations at partner initiative. For this information, you also have to distinguish between different types of “partners” depending on firm organization. Should non audit partners be included? Should non equity partners be included? Should non CPA partners be included? I think the most helpful presentation would be to include only CPA, audit, equity partners; certainly these should be segregated in the reporting because it says much about the firm’s commitment to auditing.

**Question 51. Should training hours be computed on a per-person basis, by personnel class, or as an average by class? Should the size of the firm involved make a difference in this regard?**

**Answer:** First, I would suggest that only student hours be included, not instructor hours. At least, the two should be separated. Second, while I think it would be helpful to show per person, by class, you may want to be certain that there is reasonable conformity of “classes” among the firms. I generally think of four categories (partner, manager, senior, staff) but those terms may not be used consistently among the firms. Size of the firm should make no difference. All Registered Firms should report.

In some fashion, the hours included should be correlated with the hours reported by the firms for Continuing Professional Education (CPE) requirements reporting. Doing this would provide some discipline among the firms for reporting. Many professionals spend time in self improvement study, some of which is not measured and not permitted to be added as qualifying for CPE. While laudable, such training is not part of what should be measured.

Finally, the AQI should be limited to audit training for auditors.

**Question 52. How can the effectiveness of a firm's training program best be measured?**

**Answer:** Measure it in dollars and time. Measuring effectiveness of training programs is difficult and subjective, making reporting of effectiveness even more suspect. I doubt there would be confidence in any AQI that claimed to do so. Effort can be measured so I would limit the AQI to “effort,” generally time spent by students and dollars spent by the firm, specifically on audit training, not training of auditors for other purposes, such as marketing or networking. This study may want to address what qualifies as audit training.

In the longer view, effectiveness of training shows up in other AQI.

**There is another approach** that you may consider for the future. It would not be unreasonable, nor diminish the professional status of auditors, to employ proficiency standards for audit partners authorized to sign audit reports, similar to what the Federal Aviation Administration does with respect to airline professional pilots. Those pilots must be periodically tested to assure they have current knowledge and skill relative to the particular aircraft they fly. It may be an improvement simply to have auditors take (and pass) the "audit and attestation" portion of the CPA exam on some defined repeating schedule. I have never been comfortable that "Continuing Professional Education" fulfills the need. I have attended too many CPE courses that accomplished little and where some participants spent more time on phone calls back to the office than in the meeting, yet they still get "credit" for the CPE time.

**Question 53. Should the effect of the way training is delivered (e.g., live, web-based, or self-study) be factored into the evaluation of a firm's training program? How?**

**Answer:** Not at this time. With a correlation of this data to CPE reporting, it may be possible to make more intelligent evaluation of different types of training through empirical study. But, I am not comfortable with that today.

**Question 54. Does the "percentage of hours" metric at the firm level of this indicator provide a meaningful basis for comparison with the engagement level of the metric? Would it help to disaggregate the numbers by audit client size?**

**Answer:** On the whole, I think this proposed AQI, related to when time is spent on the audit, is more a measure of characteristics of companies being audited than of the auditors' quality, i.e. if auditors follow some form of the ten Generally Accepted Auditing Standards.

Several important factors affect the timing of audit work, not the least of which is the three categories of the ten Generally Accepted Auditing Standards ***for field work***: proper planning, understanding internal controls and sufficiency of evidence. Timing of the work can be dramatically affected by engagement terms and requirements for internal control reports, quarterly review requirements and major transactions during the year. An AQI at the audit firm level is not an average that is helpful, but it is helpful at a lower level, e.g. for companies subject to internal control reporting, for companies subject to quarterly reviews. The audit committee may want to ask if and why their company is different than similar companies.

**Question 55. Is there any way to expand this indicator to quantify audit personnel experience with audit clients, to provide additional context?**

**Answer:** I think there are far more important issues to consider here than audit personnel experience with the company being audited. Trying to correlate experience by the personnel with the client is overemphasizing that relationship over more vital issues affecting timing of work.

**Question 56. Who should administer the survey described in this indicator? What steps would be necessary to assure that the results of anonymous surveys were comparable? Would the same set of questions be necessary? Would the same individual or organization have to administer each of the surveys?**

**Answer:** The survey should be the responsibility of the PCAOB, but it could be outsourced under a good contract to some responsible organization. The questions should be the same and designed to facilitate easy compilation.

However, I think this AQI is subjective. I would recommend against its use at this time. "Tone at the top," is a vague concept. AQI should measure more verifiable, concrete factors.

**Question 57. How often would a survey of this type have to be administered to retain its validity?**

**Answer**: Consider a continuous process of sampling so that results can be stratified into period results such as a year, or six months. If this AQI is used, Statistical sampling methodology should be used with sufficiently low sampling error rates to provide comfort in the results.

**Question 58. What other logistical issues might arise from a survey of this sort?**

**Answer:** Development of the questions is important. The questions should be stable over time so that improvement or deterioration can be spotted with some assurance. Consideration must be given to how surveys would be delivered to employees and to former employees if anonymity is important. Will you even have access to location of former employees? Do you need to give weight to results if former employees work for a company audited by the firm? …or for former employees who now work for a company on whose audit they were assigned as an auditor?

**Question 59. Can this indicator be applied to produce comparability among firms, e.g. in terms of definitions of "exceptional performance ratings" and "low quality ratings"? How?**

**Answer:** No, not with the confidence needed to be an indicator upon which decisions could be reasonably made among firms. It is always helpful to know whether a firm is willing to say a person is exceptional, but exceptional can be applied to many characteristics, some of which may not be those important to auditing. There are too many ways to evaluate people. Different firms want different kinds of people, different personalities, different evaluation forms, different processes, hiring is different, firm strategies are different.

This indicator is very subjective. I cannot imagine using a firm wide indicator that suggests comparability from this indicator. It is not a good indicator of audit quality among firms.

**Question 60. One issue that this indicator raises is how to fashion a workable definition of "high risk" that allows comparability among firms or even among engagements within a firm. Comment is specifically requested on that subject.**

**Answer:** Two “high risks” risks require consideration: 1) Risk presented by the company being audited; 2) Risk the auditor is willing to take.

The company being audited may be high risk because of market pricing that drives fundamentals to extremes (such as the price/earnings ratio) making it vulnerable to surprises; the company may be a start up with no history of management or earnings; it may be highly leveraged with complex credit agreements; the economy or government regulations may make it the company high risk; aggressive, domineering management inclined to push limits may be the factor. There are many reasons, almost limitless.

For the second risk, auditors operate using an audit risk model that includes a “planned detection risk,” which attempts to reach the maximum risk they are willing to take, something called the “acceptable audit risk.” Application of the audit risk model, though, is not standard among firms and ranges from casual undocumented to required procedures, such as checklists and formal memoranda of decisions. This “acceptable audit risk” has a major impact on risk to the investor and on audit fees. It is not easy to measure; it is affected by many external factors, including audit market conditions, planned attempts by the audit firm to enter a new industry or obtain a new audit, size of the audit relative to the audit firm, location of the audit, the chances that a failure would become high profile, etc.

Audit firms are aware of both risks, but, to my knowledge, neither risk is commonly reduced to one metric for internal firm use. Developing a metric for measuring either of these risks is not easy and reaching consensus on how to do it may be impossible.

Each of the two types of risk can be “high” to investors, depending on their investment diversification. Perhaps, the definition you seek should first address the question, “High risk to whom?”The common risk most of us think about is the risk that financial statements might be wrong. The less commonly understood is the risk that an auditor decided to do less work and risk higher chance of undetected errors from their audit work.

This proposed AQI is very subjective, unique to each firm and even to parts of firms. Firms could not even give good answers to this proposal. If they claim to have metrics, I would not believe the claim. Neither would I believe the metrics among firms would be comparable.

If you go down this path, remember there are two “risks” that must be considered to arrive at the risk to an investor.

**Question 61. What other measures of independence, or independence issues, would be appropriate? Would information generated by this indicator be more meaningful if measurements were stratified by personnel level?**

**Answer:** Your suggested measurements are appropriate, but I think you should consider replacing the firm level measurement "e," which calls for a percentage, with the raw number of public company auditor changes because of independence violations. I would expect the percentage to be very small for all firms, rendering the percentage less transparent than the number.

A time period for this information is also important. Should it be one year, five years, ten years? Should it include predecessor firms? Should it include violations by firm personnel while with previous firms?

Stratification by personnel is important. Is all the training and investment being directed at staff and all violations occurring among partners?

With respect to investment and training, there will be inconsistent quality. Recently, I attended an ethics training session offered by an audit firm that I would describe as a sales training program having little to do with ethics. For ethics, the impact was more negative than positive. Yet, it would probably be included in this AQI. That bothers me, because the measurement risks being subjective.

**Question 62. In what ways can investments in infrastructure that are relevant to improving audit quality best be defined?**

**Answer:** I agree that defining investment in people, process and technology to demonstrate audit quality is difficult. Somewhat arbitrarily, simply to isolate something more easily measured, I believe you must confine these measurements to discretionary, uncompensated expenditures of time and money. Thus, do not count for this purpose any "on the job" training by professionals. Only include training and development programs for which nothing is billable to a third party. For these AQI, the same restriction applies to other expenditures for technology or research on new audit techniques. Once these programs are passed into production, they should no longer be counted as investment. Just as other companies have training costs and Research and Development, audit firms have them. These programs demonstrate what the firm partners are willing to spend in time of professionals and their own money looking for better people and tools.

Consideration also needs to be given to time periods encompassed by these AQI. Is the commitment a sustained, continuous program? Good quality results from continuous effort.

**Question 63. How should such investments be measured? Is measurement in dollar terms (or dollars per auditor) appropriate? Can such investments be measured at the engagement team level?**

**Answer:** Training programs should be measured in both dollars and time. Dollars should include time of instructors and participants priced at the payroll cost of the parties for the time spent. Outside instructors, facilities, travel and other incremental costs should be included. Time should include only direct time related to training. I do not believe it is necessary to use this AQI at the engagement level.

**Question 64. How should internal quality inspection findings be compared to or analyzed alongside PCAOB inspection results in applying indicators 18 and 19?**

**Answer:** Internal quality inspections are important. It is useful to know the result of such reviews. Using some sort AQI for comparison of these reviews to the PCAOB inspection is not beneficial, however, because it will tend to conform the two reviews over time resulting in duplication of work and the suppression of different perspectives that may be helpful to all.

**Question 65. What are the best methods for measuring magnitude of restatements for errors? Is one method superior to the others? Why?**

**Answer:** The number of restatements among those companies audited by the firm is the best measure. Restatements are not made for inconsequential purposes, so the magnitude in dollars is less significant than the fact it had to be done. Knowing the number will cause follow up questions by anyone wanting more information on particular matters.

**Question 66. Would one or more AQIs related to fraud and other financial reporting misconduct be helpful to discussions of audit quality? If so, what AQIs would best inform those discussions? How could the challenges listed above be overcome?**

**Answer:** As we all know, fraud and financial reporting misconduct is not easy to find, particularly when collusion of third parties exists. Fraud and financial reporting misconduct is normally discovered through whistle blower involvement, internal auditors and good internal controls. External auditors only occasionally find these problems. As an AQI, I think it is best to limit the information to restatements and material adjustments made to filed annual reports by companies for whom audits were performed by the audit firm. Such an AQI signifies significant issues without having to make legal conclusions that may ascribe guilt to someone not guilty or innocence to someone guilty.

**Question 67. Comment is requested on each of the issues raised about this indicator. Would it be preferable to identify specific indicators related to financial reporting quality or to focus on audit firms' measures of reporting quality to measure risk? How would the latter approach control for differences among firms?**

**Answer**: Before launching into AQI that somehow measure reporting quality issues, I certainly agree more study is required. The problems I can foresee result from the ever changing nature of our economy, including the effect of continued globalization, all of which result is a churning of issues that cause risk. In a letter to the Board, dated January 31, 2014, (http://pcaobus.org/Standards/Staff_Consultation_Comments/016_Viets.pdf) regarding Auditing Estimates and Fair Value Measurements, I suggested that consideration be given to a display in financial statements of the basis of presentation of financial statement elements, summarizing those stated in terms of direct transaction, management estimate and various market value determinations, while simultaneously showing those subject to inflation and currency conversions. In many ways that suggested display gets to some of what you may want to consider in studying these proposed AQI. You may be reaching a point, however, in pursuing these AQI where you are beginning to measure company quality as a surrogate for measuring audit quality. If so, I would suggest stick to measuring auditors.

**Question 68. How should factors such as difficulties in foreseeing business difficulties, or the risk of providing an incentive for unnecessary going concern warnings be reflected in an indicator of this kind?**

**Answer:** This question appears to apply only to the AQI on "going concern" issues, not to internal control issues discussed in section 24. With respect to section 24, I am concerned with the apparent inability to identify material internal control issues until a restatement is necessary in most cases. I suspect this is a flaw in the discipline of the report that can be attributed to lack of rigorous training on internal control systems in auditor education both in college and at the firms, along with vehement resistance of public companies to accept an auditors' suggestion that something might happen that has not happened yet.

In that case, the "firm level" indicators appear to be appropriate. It is not clear how the same indicator "a" could be applied to further clarify the obvious at the engagement level where applying a percentage to one situation is either 100% or 0%. At the engagement level, the situation will be well known without indicators to measure it.

**Question 69. Who should administer the survey described in this indicator? What steps would be necessary to assure that the results of anonymous surveys were comparable? Would the same set of questions be necessary? Would the same individual or organization have to administer each of the surveys?**

**Answer:** I would prefer to see a survey of this type be sponsored and completed by the PCAOB. The survey should be largely data gathering using technology to assure the anonymity of audit committee. I would limit the survey to one for each committee, not one for each member. Audit committees should extend the time at one meeting each year to reach a consensus on answers to about twenty well designed multiple choice questions concerning the auditor communication process. There should be a provision for elaboration by comment in case the committee or one of its members felt it necessary. The survey should not be a statistical sample, but include all audit committees for the approximately 10,000 entities that are public. The PCAOB system should be designed to sort the results by audit firm, by characteristics of the audited companies and by characteristics of the audit reports on financial statements and internal controls.

Keep this from being a subjective "client satisfaction survey."

**Question 70. How often would a survey of this type have to be administered to retain its validity?**

**Answer:** If done, the survey should be required reporting annually by all public company audit committees with the same timeliness requirements as 10-Ks.

**Question 71. What other logistical issues might arise from a survey of this sort?**

**Answer:** Issues needing consideration would be the need to absolutely protect the anonymity of the surveyed committees to help assure the candidness of the survey and guard against the survey being used as a threat to the audit firm. Also, some thought needs to be given to how to handle the survey if the company financial statements are delayed beyond normal reporting dates.

**Question 72. Should tabulation of cases for purposes of this indicator include all cases filed or only cases that result in findings against an accountant or accounting firm? What about settlements entered into without an admission of wrongdoing?**

**Answer:** All PCAOB and SEC enforcement proceedings should be reported, including those pending. The AQI can summarize final disposition.

**Question 73. Should tabulation of cases for purposes of this indicator include all cases filed or only cases that result in findings against an accountant or accounting firm? What about settlements?**

**Answer:** The tabulation should include all cases involving public companies where the claim is or can be assumed to be in excess of $1,000,000 (or some reasonable amount designed to eliminate inconsequential cases). The tabulation should show annually the number of claims at the beginning of the year, those settled, those dismissed and those added.

Consideration should also be given to reporting cases filed by the firm against the companies it audited and subrogation claims.