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Confédération suisse
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Federal Audit Oversight Authority FAOA

Swiss Confederation

CH-3001 Berne, FAOA

Office of the Secretary
Mr. S. Bruce Wilson
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803
United States of America

Our sign: SFO/1509
Berne, 29 September 2015

PCAOB Release No. 2015-005 – Audit Quality Indicators

Dear Mr. Wilson, *Dear Bruce*

The Federal Audit Oversight Authority (FAOA) of Switzerland welcomes the opportunity of commenting on the concept release seeking comment on the content and possible uses of audit quality indicators (PCAOB Release No. 2015-005 issued on July 1, 2015).

Overall, we strongly support the PCAOB in developing and requiring audit quality indicators (AQI). We believe that collecting and sharing AQI would generally have a positive impact on audit quality, as publicly available information on audit quality is currently limited and not available to those making important decisions about the selection and evaluation of audit firms. Furthermore, we are convinced that the collection and evaluation of AQI information has the potential to stimulate competition among audit firms based on audit quality.

Over the last six years the FAOA has collected audit quality measures (AQM) from the five largest audit firms on specific audit-related areas of the quality assurance system. These AQM are primarily based on firm-wide information and allow for trend analyses and the timely identification of factors that may negatively impact audit quality. In addition, the AQM are used for risk assessment when planning inspections. The AQM were further developed last year to improve their informative value and comparability. The AQM are partly disclosed in the annual activity report without naming audit firms. Other AQM are used internally. Although the PCAOB concept release on AQI is based on different indicators, we believe that the FAOA's experience in using AQM can be of benefit for the PCAOB's project.

Please note that we have limited our input to those questions where we believe we have relevant experience or insight. The numbering of the questions answered corresponds to the numbering in the concept release.

Federal Audit Oversight Authority FAOA
Bundesgasse 18
P.O. Box 6023
CH-3001 Bern, Switzerland
Tel. +41 31 560 22 22, Fax +41 31 560 22 23
www.rab-asr.ch

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 FAOA: The FAOA believes that a limited set of AQI would provide a suitable basis to improve audit quality if these indicators are available both at the engagement and firm level. It is key that AQI data is easily available to audit committees when selecting or evaluating audit firms.

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 FAOA: Yes, the indicators are likely to build a strong knowledge base, enabling audit committees and others to better evaluate auditors and compare their work to that of their peers.

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 FAOA: Based on the FAOA's experience with collecting AQM, as described in the introduction, we do not anticipate any negative unintended consequences. In our view, positive consequences should clearly prevail.

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

Answer FAOA: Overall, the number of possible indicators appears high. We assume that the Board will reduce the number of indicators during the project, based on input received.

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

Answer FAOA: We believe that the average number of EQCR (Engagement Quality Control Reviewer) hours per public company audit provides insight into the level of involvement of the EQCR. In Switzerland the involvement of the EQCR is still not at the desired level.

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 FAOA: Most useful: Indicators covering “Availability”, “Competence”, “Incentives and “Monitoring” are easy to understand and contain information which is, in our view, less judgemental.

Least useful: Indicators covering “tone at the top” and “investments in infrastructure”. We do not believe that a people survey could accurately measure “tone at the top”. The indicator “investments in infrastructure” is certainly important. But we believe it to be rather challenging to make a direct link between investments and audit quality.

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?

Answer FAOA: In the case of a global audit the definition of “engagement level” should only include data relating to the group audit team. Otherwise it would be difficult to understand the extent to which the group auditor assumed its overall responsibility. Also, the work performed by the group auditor is usually different to the audit work performed by a component auditor (e.g. complexity, different level of personnel etc.).

Question 16. Comparability.

a) How important is comparability to the value of AQIs?

Answer FAOA: Comparability is absolutely crucial to the value of AQIs.

b) What are the most important elements of comparability in the analysis of AQIs?

Answer FAOA: In our experience it is vital to define AQIs clearly in order to improve comparability. Furthermore, the AQI data should be tested as part of the routine inspections.

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?

Answer FAOA: We believe that comparability is most likely to be fostered by data focused on industry.

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 FAOA: In our experience, differences between firms can make it difficult to compare AQIs. In particular, personnel working in IT assurance services are classified differently among firms and can therefore impact the comparability of specific indicators (e.g. staffing leverage).

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

Answer FAOA: In Switzerland AQIs are analysed with respect to the audits of the 20 largest public companies and separately with respect to the remainder of public companies. The analysis shows significant differences in AQI data overall.

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 FAOA: We do not know the exact costs to audit firms of compiling AQI data. But from our experience we believe that IT-systems of audit firms should generally be able to create the required data at a reasonable cost.

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 FAOA: We do not see that the collection and evaluation of AQIs would be a great economic burden for smaller audit firms. On the contrary, smaller firms with AQIs indicating high standards of audit quality could better compete with bigger audit firms since quality, and not size, would be the decisive factor in selecting the auditor.

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 FAOA: We believe that audit committees and investors would most likely focus on engagement-level AQI information. Firm-level AQI information is valuable to identify general trends and could therefore be of primary interest for the audit oversight authority (PCAOB), the press and, to a certain extent, the broader public.

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?

Answer FAOA: We believe that members of audit committees would most likely benefit in using AQIs in selecting and evaluating audit firms since audit committees usually lack other sources of information about the quality of a specific audit engagement.

- Question 24. Does the discussion of the uses of the indicators identify all likely uses? If not, what other uses should be considered?
- Answer FAOA: We do not see the AQIs as having uses other than those already mentioned in the concept release.
- 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 FAOA: Engagement-level data would be most useful in evaluating the audit firm and the engagement partner. Firm-level data becomes more relevant when an audit is out for tender and audit committees have to select among several audit firms.
- 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 FAOA: In Switzerland we are not aware that audit committees of public companies (even SEC-listed Swiss public companies) receive or ask for AQI-like information.
- 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 FAOA: We understand that investors are probably interested in quick and easy to understand information about the audit of a specific company. The relevant AQI data would therefore rather be at the engagement level.
- 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 FAOA: To ensure the usefulness of AQI data it is imperative that the engagement-level and firm-level data is easily accessible to all audit committees.
- 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 FAOA: We suggest that the Board first recommends the voluntary disclosure of AQI information. In a second phase, the Board could start to require the disclosure of some of the most relevant AQI (phase-in approach).
- 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 FAOA: After a first phase, where the disclosure of AQI data is voluntary, audit firms should be required to provide audit committees with engagement-level AQI data.

Question 34. Should distinctions be made, in the timing or nature of AQIs, among the audit firms that audit more than 100 public companies? 40 What potential distinctions would be most useful?

Answer FAOA: The FAOA only collects AQI-like data in respect to the Big Five audit firms (firm level only). This is due to the fact that these Big Five firms audit approx. 98% of all publicly-listed companies in Switzerland. We believe that limiting the collection of AQI-like data to only the Big Five should be considered by the PCAOB, at least for a first phase of the AQI project. Also, it is highly unlikely that the quality of AQI data of the non-Big Five would be of sufficient quality and comparable to the data of the Big Five.

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 FAOA: We believe that smaller audit firms should be treated differently due to the limited size of the companies they audit. We recommend that audit firms with less than 100 public companies provide less detailed or no AQI information.

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 FAOA: We agree that an appropriate "tone at the top" and the way the firm communicates and stands behind that tone is generally essential to foster professional scepticism and objectivity. However, we believe that the tone at the top is too complex to be measured with an indicator or survey. Also, the results of a survey would probably be too subjective to be used as a basis for an indicator.

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

Answer FAOA: As mentioned above, we do not think that an AQI on infrastructure would provide audit committees or others with valuable information. Investments in audit software probably fluctuate strongly from year to year. Also investments in audit software (e.g. efficiency programs) might not lead directly to better audit quality. However, the PCOAB could monitor investments in infrastructure to analyse possible negative trends in the audit industry.

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?

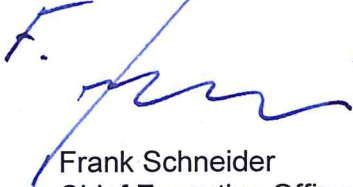
Answer FAOA: We do not see how investments in infrastructure could be measured at the engagement team level.

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 FAOA: A possible AQI related to fraud could be the number of hours spent by forensic specialists on a specific engagement, either as an absolute amount or as a percentage of total engagement hours.

To conclude, we would like to emphasise that the FAOA welcomes the concept release of the PCAOB. This important initiative demonstrates the shared commitment of the PCOAB to further improve audit quality. In this respect we hope that the FAOA's input to the AQI project is helpful to you.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'F. Schneider', is written over a diagonal line that extends from the top left towards the bottom right.

Frank Schneider
Chief Executive Officer