

**MEMO# 28074**

April 29, 2014

## **PCAOB and CAQ Consider Audit Quality Indicators**

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 12-14  
AUDIT COMMITTEE CHAIRS No. 1-14 RE: PCAOB AND CAQ CONSIDER AUDIT QUALITY INDICATORS

For the past several years the Public Company Accounting Oversight Board (“PCAOB”) has worked on a project to develop a set of potential audit quality performance measures, referred to as “audit quality indicators” (“AQIs”). AQIs may assist audit committees and investors assess audit quality and encourage audit firms to compete on the basis of audit quality. Such measures may also inform the PCAOB’s policy and inspection decisions, aid work of other regulators, and assist audit firms themselves in quality control and remediation efforts.

In November of 2013 PCAOB staff released a paper describing its work on AQIs. [\[1\]](#) The paper provides background on the project and describes a range of possible AQIs the PCAOB is considering. The AQIs are classified into inputs indicators (e.g., average years of audit experience, audit staff turnover, industry expertise), process indicators (e.g., tone at the top of the audit firm, findings from the audit firm’s internal quality reviews), and results indicators (e.g., frequency of financial statement restatements, absence of a going concern paragraph within an audit report prior to bankruptcy or similar distress). The paper contains a series of questions addressing the feasibility of developing AQIs, the potential uses and users of AQIs, the costs and benefits, and others. We understand that the PCAOB plans to issue a concept release in 2014 seeking public comment on these and other questions.

### ***Center for Audit Quality***

The Center for Audit Quality (“CAQ”) recently released a paper summarizing its work on AQIs. [\[2\]](#) In the paper, the CAQ provides its perspectives regarding: (1) the background and context for the discussion of AQIs, (2) a suggested approach for the communication of AQIs which focuses on communication of engagement-specific and audit firm-specific measures to audit committees, and (3) the identification of a set of potential AQIs to assist the audit committee fulfill its responsibility to oversee the audit. Under the CAQ’s approach, the

discussion of AQIs would occur annually prior to the commencement of the audit, with updates during the audit if significant changes occur.

The CAQ paper also provides an overview of its plans to pilot test the AQIs to identify any potential barriers to auditor preparation and communication, and to assess the overall usefulness of the AQIs to audit committees. The CAQ's pilot-testing efforts will be performed in several phases throughout the 2014 audit cycle and will include presentation of comparative AQIs for the current year (2014 audit cycle) and prior year (2013 audit cycle). The CAQ plans to share the findings from its pilot testing, including enhancements to the set of potential AQIs (if any).

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#### **endnotes**

[1] The paper, [\*Discussion – Audit Quality Indicators\*](#) (November 14, 2013), is available on the PCAOB website.

[2] The CAQ is an autonomous public policy organization dedicated to fostering high quality performance by public company auditors. The paper, [\*CAQ Approach to Audit Quality Indicators\*](#) (April, 2014), is available on the CAQ website.

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