September 29, 2015

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

By e-mail: comments@pcaobus.org

Re: Concept Release on Audit Quality Indicators
(Release No. 2015-005, Docket Matter No. 041)

Dear Madame Secretary:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA’s SEC and Auditing Standards Committees deliberated the concept release and prepared the attached comments. If you would like additional discussion with us, please contact Charles Abraham, Chair of the SEC Committee at (516) 620-8526, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON
CONCEPT RELEASE ON AUDIT QUALITY INDICATORS
(RELEASE NO. 2015-005, DOCKET MATTER NO. 041)

September 29, 2015

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NYSSCPA Staff
Ernest J. Markezin
The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on Release No. 2015-005 “Concept Release on Audit Quality Indicators” Docket Matter No. 041 (the Concept Release) issued by the Public Company Accounting Oversight Board (the PCAOB or the Board). We understand the purpose of the Concept Release is primarily to “improve the ability of persons to evaluate the quality of audits in which they are involved or on which they rely and to enhance discussions among interested parties;” “inform discussions among those concerned with the financial reporting and auditing process, for example among audit committees and audit firms;” and “stimulate competition among audit firms focused on the quality of the firms’ work and, thereby, increase audit quality overall.” We believe that it is an absolute necessity for audit committees to be able to ensure that they have the appropriate tools to evaluate the quality of the audit firm and the quality of the audit. However, we do not believe that the audit quality indicators (AQIs), without additional context, will be able to accomplish the purpose of the Concept Release.

The primary basis for our opinion is the incorrect implication likely to be drawn from the quantitative nature of the AQIs. As noted in the Concept Release, the AQIs “are not formulas and may have their greatest use as generators of questions for the auditor.” “They are not algorithms, benchmarks, or safe harbors against enforcement or other claims, and they do not lead directly to formulas for determining the quality of a particular audit or whether an auditor has met its obligations.” While the Board has stated the foregoing in the Concept Release, we remain concerned that identifying the 28 quantitative indicators as AQIs might lead to incorrect impression among regulators and users of audit reports that these metrics are, in fact, rigid algorithms that measure audit quality. This approach understates the context that necessarily surrounds these metrics and the auditor judgment that is paramount in any audit.

We believe that in many ways auditing is more an application of skill than science and believe that auditors should be encouraged, not simply permitted, to apply considerable professional judgment. The Concept Release and its 28 potential indicators appear to be an exercise to compartmentalize what is an integrated process that requires the use of professional judgment. While a standard “checklist” or “cookbook” approach may help educate audit committees and the investment community on, and remind the practitioners of, the key considerations that should go into each audit planning and auditing process, it is not an effective measure of the quality of an audit without understanding the context surrounding the AQI. In practice, it will likely be difficult to gain consensus on how these 28 potential indicators should be, and could be, consistently and objectively applied, as each audit is different and so is the audit risk that is associated with each audit engagement. For this reason, as more fully explained
below, we believe the use of AQI should be voluntary and discussed as part of the communications between audit committees and auditors.

We agree with the statement in the Concept Release that “since AQIs are not benchmarks, even comparability of AQIs in two audits may not imply comparable audit quality.” The AQIs may not accurately portray the quality of the audits performed by each accounting firm due to key differences in clients (types of clients, industries, risks involved, etc.) and accounting firms (size, structure, management, etc.).

We firmly believe that if some or all of the suggested AQIs were ultimately adopted in any form as part of a PCAOB standard or rule, they should not be the subject of any public disclosure but should only be made available for discussions between auditors and audit committees. Our view is based primarily on the fact that other readers of such information will not be in a position to engage in dialog with, and ask questions of, auditors and management, as an audit committee is. The risk, therefore, of drawing incorrect conclusions from such disclosures, no matter how carefully drafted, is unacceptably high.

Investors and other stakeholders rely (and should continue to rely) on audit committees to select and retain qualified auditors appropriately, and audit committees should receive as much information as needed for their assessment and appointment or re-appointment of the audit firm. If reviewing the AQIs will further assist with this assessment, then it is reasonable for continuing auditors to present them annually with their own self-assessments, or for bidding audit firms to present and explain them in their proposals. However, we do not think it should be a requirement of any auditing standard or rule that the AQIs be presented. It should be at the discretion of the audit committee or the audit firm whether to request or present the AQIs (and which ones) to assist in the audit committee’s decision to appoint or retain the auditors.

We are in full support of the Board’s goal of enhancing audit quality; however, we reiterate our belief that quantitative AQIs are more likely to be misleading to the investing public than informative. Such information incorrectly implies that quantitative measures can be compared meaningfully between audits and between audit firms while obscuring the key circumstantial differences among audits, clients and most significantly, auditors’ professional judgments. Further, providing such information quantitatively will likely ensure that less importance is given by auditors to significant and relevant matters of context which will diminish an audit’s value to stakeholders.