
STANDING ADVISORY GROUP

Usage of Audit Quality Indicators (AQI) Debrief Session

June 25, 2014

This presentation was developed by the staff of the Office of Research and Analysis as of June 25, 2014, to foster discussion among the members of the Standing Advisory Group. It is not a statement of the Board; nor does it necessarily reflect the views of the Board members or other staff.

Agenda

- Summary of Main Points
- Usefulness of AQI Data to Stakeholders
- Near-term Actions
- Long-term Actions

Note: All results are based on SAG Member responses

Summary of Main Points

General Support for the AQI Project:

- Agreement on the importance of the project
- Consensus on usefulness to Audit Committees, Audit Firms and the PCAOB
- Phasing options
- AQIs plus context equals insight

Summary of Main Points

Challenges:

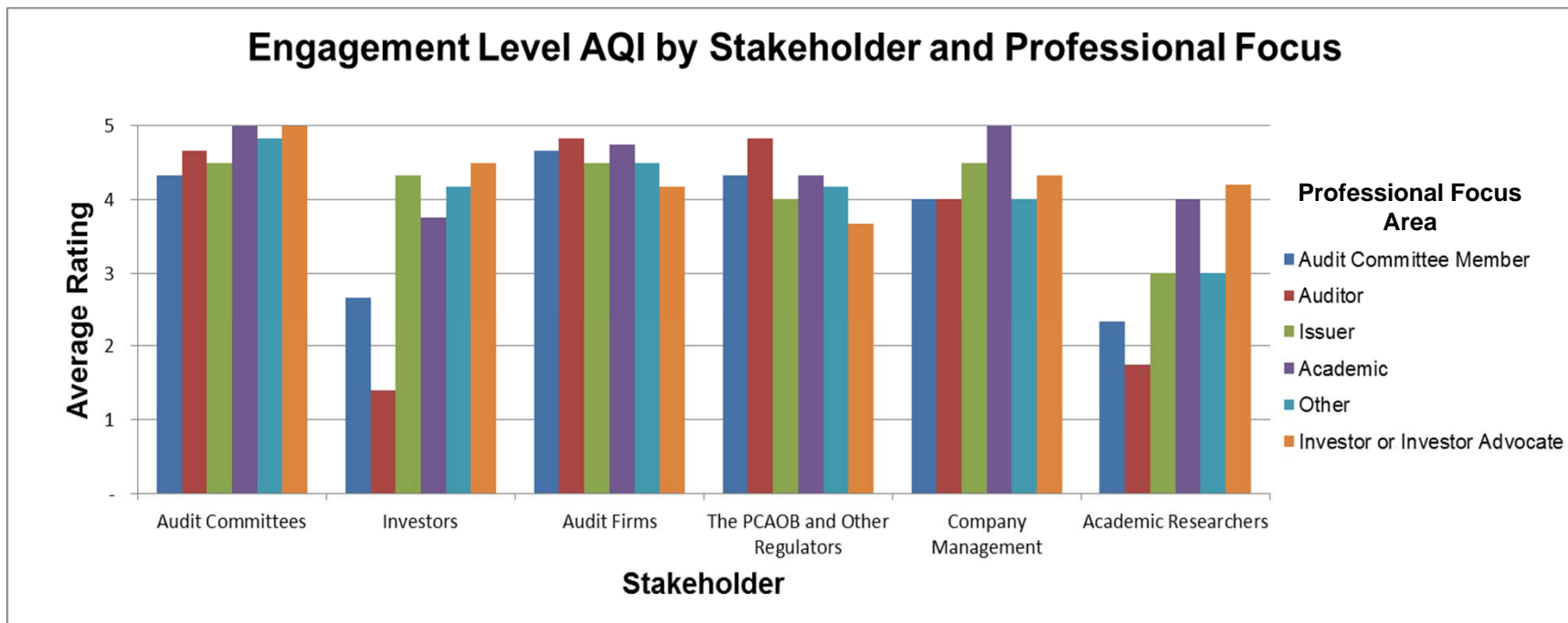
- Unintended consequences
- Private communication versus public dissemination
- Empirical evidence and field testing
- How to quantitatively measure tone-at-the-top, professional skepticism, and incentive structure
- Scalability
- Liability concerns

Usefulness of AQI Data to Stakeholders

Average Rank of Usefulness of AQI by Stakeholder		
Stakeholder	Engagement Level	Firm Level
Audit Committees	4.8	3.9
Investors	3.5	3.3
Audit Firms	4.6	4.5
The PCAOB and Other Regulators	4.2	4.5
Company Management	4.3	3.5
Academic Researchers	3.1	3.7

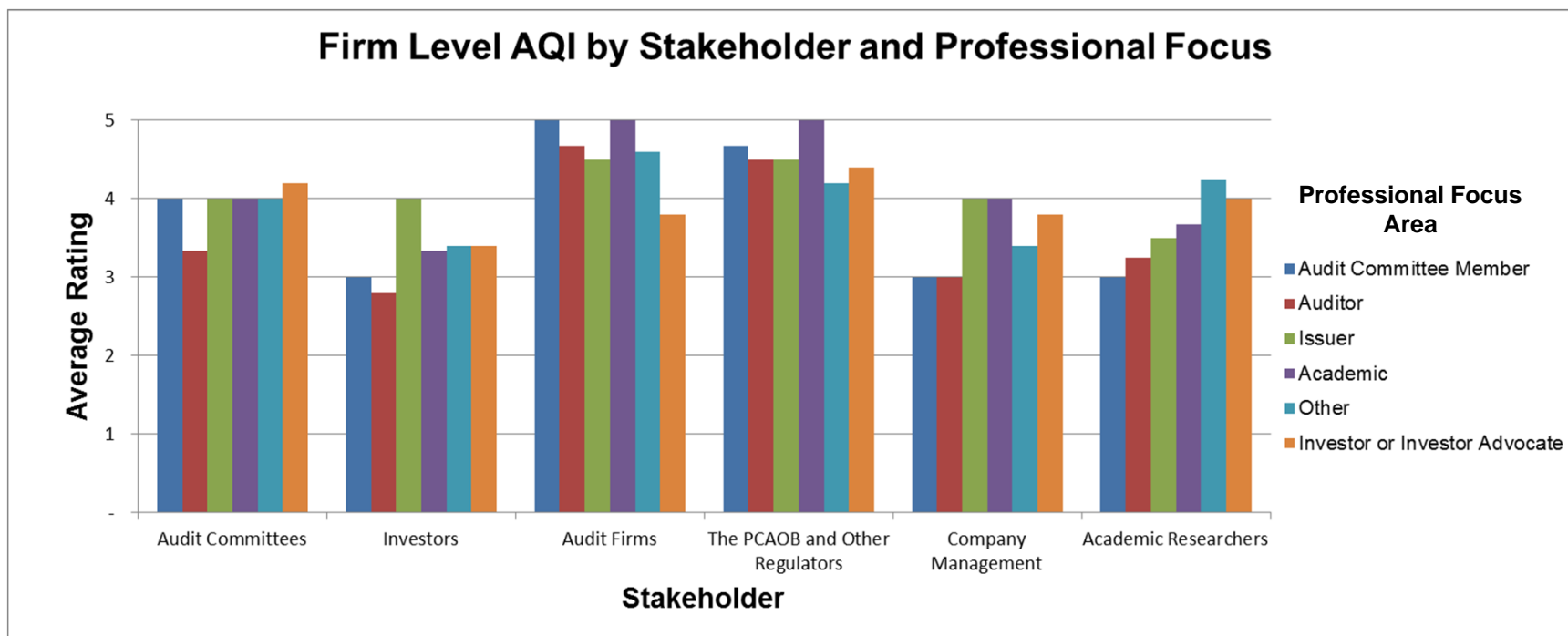
Ranking: 1 = Not Useful, 5 = Highly Useful

Rating of Engagement Level AQIs



Ranking: 1 = Not Useful, 5 = Highly Useful

Rating of Firm Level AQIs

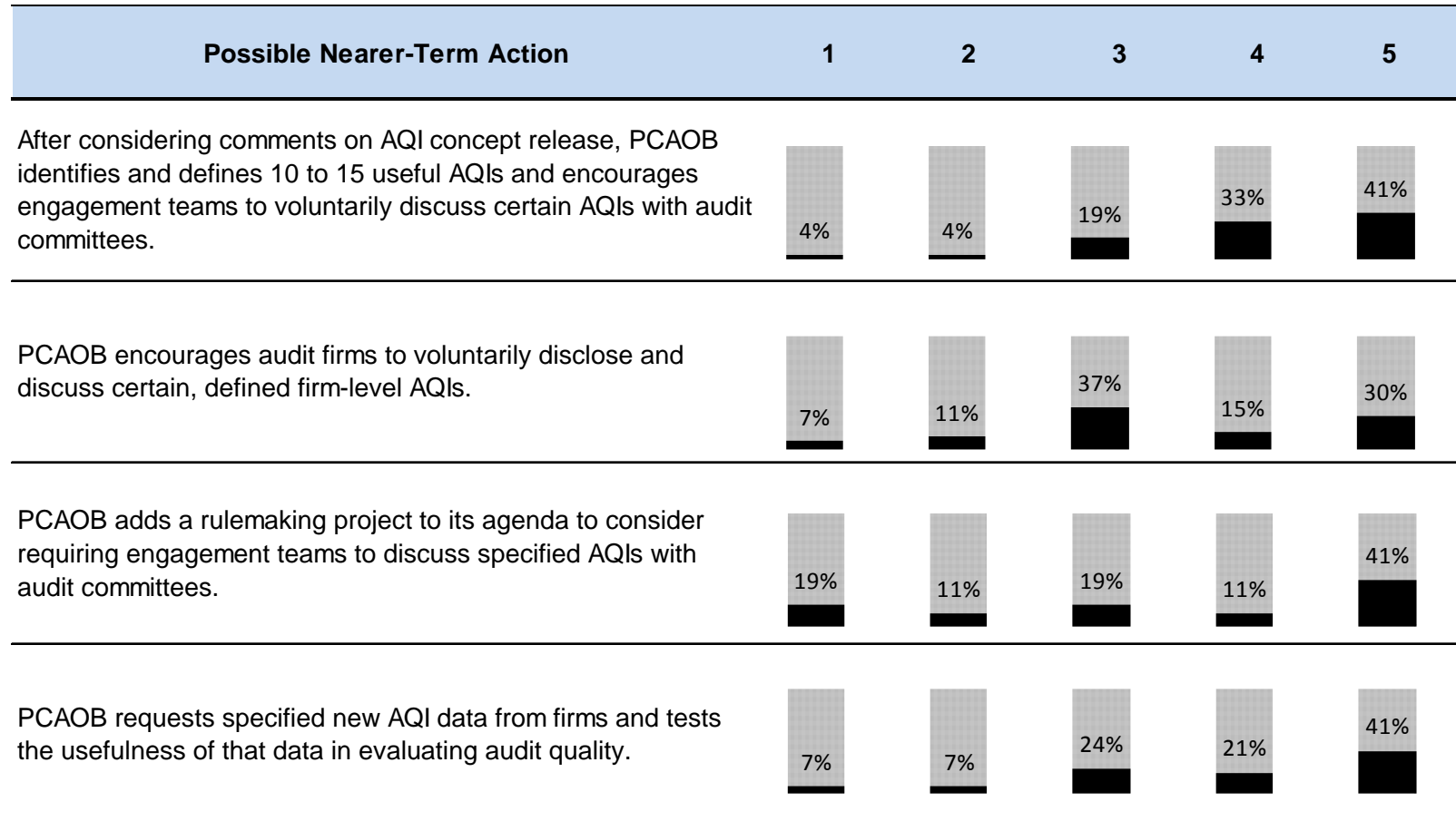


Ranking: 1 = Not Useful, 5 = Highly Useful

Other Suggested AQIs

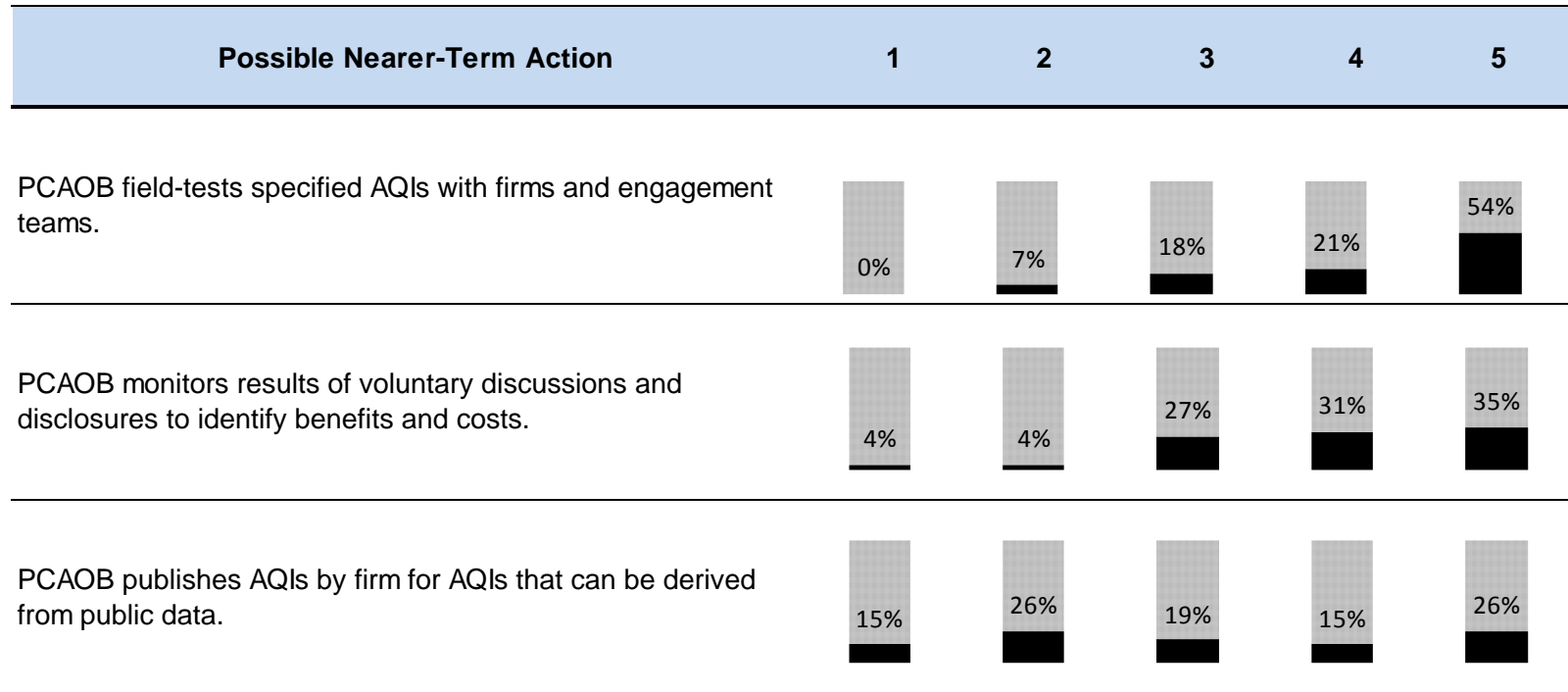
	# of Members Responded
Industry Level	6
Office Level	4
Geography	1
Market	1
Profession-Wide	2
Individual Partner	1
Proxy Voting	1
Issue	1

Near-Term Actions – Percent of Rankings (pt. 1)



Ranking: 1 = Not Useful, 5 = Highly Useful

Near-Term Actions – Percent of Rankings (pt. 2)



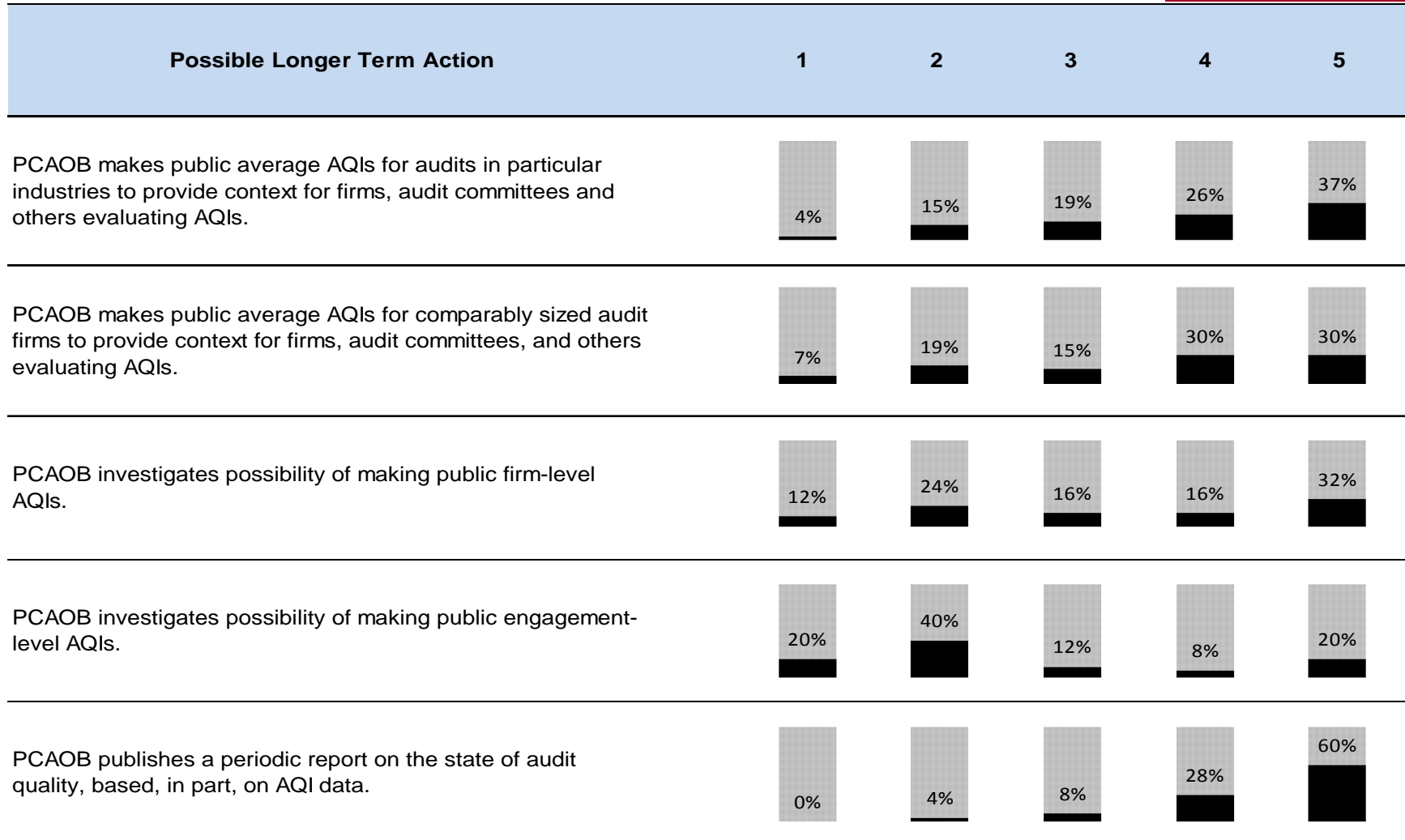
Ranking: 1 = Not Useful, 5 = Highly Useful

Near-Term Actions – by Professional Focus Area

Possible Nearer-Term Action	Average Rating by Professional Focus Area						Total
	Audit committee Member	Investor or Investor Advocate	Auditor	Issuer	Other	Academic	
After considering comments on AQI concept release, PCAOB identifies and defines 10 to 15 useful AQIs and encourages engagement teams to voluntarily discuss certain AQIs with audit committees.	3.3	3.5	4.5	4.0	4.5	4.0	4.0
PCAOB encourages audit firms to voluntarily disclose and discuss certain, defined firm-level AQIs.	4.0	3.0	3.8	4.3	3.3	2.7	3.5
PCAOB adds a rulemaking project to its agenda to consider requiring engagement teams to discuss specified AQIs with audit committees.	3.7	3.7	2.2	3.7	4.2	3.7	3.4
PCAOB requests specified new AQI data from firms and tests the usefulness of that data in evaluating audit quality.	4.7	4.0	3.0	4.3	3.8	3.8	3.8
PCAOB field-tests specified AQIs with firms and engagement teams.	5.0	3.7	4.2	4.3	4.2	4.5	4.2
PCAOB monitors results of voluntary discussions and disclosures to identify benefits and costs.	4.0	3.3	3.6	4.3	4.0	4.7	3.9
PCAOB publishes AQIs by firm for AQIs that can be derived from public data.	3.3	3.2	2.2	3.3	3.5	3.3	3.1

Ranking: 1 = Not Useful, 5 = Highly Useful

Long-Term Actions – Percent of Rankings



Ranking: 1 = Not Useful, 5 = Highly Useful

Long-Term Actions – by Professional Focus Area

Possible Longer Term Action	Average Rating by Professional Focus Area						Total
	Audit committee Member	Investor or Investor Advocate	Auditor	Issuer	Other	Academic	
PCAOB makes public average AQIs for audits in particular industries to provide context for firms, audit committees and others evaluating AQIs.	3.7	3.3	3.2	4.3	4.2	4.7	3.8
PCAOB makes public average AQIs for comparably sized audit firms to provide context for firms, audit committees, and others evaluating AQIs.	3.7	3.4	2.6	4.3	4.2	3.3	3.6
PCAOB investigates possibility of making public firm-level AQIs.	4.0	3.5	2.0	4.3	3.8	2.0	3.3
PCAOB investigates possibility of making public engagement-level AQIs.	2.7	3.2	1.6	2.7	3.0	3.0	2.7
PCAOB publishes a periodic report on the state of audit quality, based, in part, on AQI data.	4.0	4.2	4.3	5.0	4.5	5.0	4.4

Ranking: 1 = Not Useful, 5 = Highly Useful