

March 16, 2020

Members of the Public Company Accounting Oversight Board (PCAOB)

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association (the Committee) is pleased to provide comments on the Concept Release, *Potential Approach to Revisions to PCAOB Quality Control Standards*.

The views expressed in this letter are those of the contributing members of the Committee and do not reflect an official position of the American Accounting Association. Although the comments reflect the consensus view of the Committee, they do not necessarily reflect the views of every member.

We hope that our comments and suggestions are helpful.

Respectfully submitted,

Auditing Standards Committee  
Auditing Section – American Accounting Association

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## Comments on Concept Release on Potential Approach to Revisions to PCAOB Quality Control Standards

### Overall Commentary:

We commend the Public Company Accounting Oversight Board (the Board) on its consideration to revise the *Quality Controls* (QC) standards in an effort to focus firms on improving their QC systems and for considering aligning the Board's QC standards with those of the proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (proposed ISQM 1) to reduce the compliance burden on firms.

Overall, we believe the proposed revisions are necessary and substantially achieve the Board's intent. Generally, most public company audits are performed at a high level of quality; however, research finds many audit deficiencies (e.g., failures to detect material misstatements due to error or fraud) relate to auditors' failure to complete certain tasks or failure to appropriately follow-up on red flags, which are indicative of quality control issues within the firm.

Below, we provide insights from academic research that are relevant to the Board's deliberations in our responses to selected questions on three aspects of a QC system presented in the Concept Release: *Resources* (questions 31, 32, 34, 36, 37), *The Monitoring and Remediation Process* (questions 45, 46, 47), and *Roles and Responsibilities of Individuals* (question 52).

### Question-specific Commentary:

*Question 31 - Is the approach to resources appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe that the PCAOB provides sound reasons for harmonizing, to the extent possible, its proposed QC requirements with ISQM1. Further, ISQM1 provides, in our view, a solid foundation on which to build the Resources component of PCAOB QC standards, as ISQM1 addresses foundational issues of human, technological, and intellectual resources needed to perform quality audits. While the vast majority of public company audits appear to be performed at a high level of quality, research (Beasley, Carcello, and Hermanson 2000; Beasley, Carcello, Hermanson, and Neal 2013) and PCAOB inspections (PCAOB 2019a) reveal that many audit problems (e.g., failures to detect fraudulent financial reporting, or audit deficiencies) relate to auditors' failure to complete certain tasks or failure to appropriately follow-up on red flags or other issues. While the contributors to these audit problems may vary across settings, research reveals three types of resource-related contributors: (a) auditor competencies, (b) time constraints and workload, and (c) incentives – consistent with the focus in the Concept Release. We believe that the PCAOB's overall approach to addressing these contributors with the proposed QC requirements is sound, and we discuss each contributor below in our responses to questions 32, 34, 36 and 37.

*Question 32 - Should a future PCAOB QC standard continue to expressly address technical training on professional standards and SEC requirements? Are there other subjects for which training should be expressly required? Which firm personnel should be covered by the training requirements? Should the standards set minimum requirements for the extent of training? If so, what should those requirements be based on?*

We believe that the PCAOB QC standards should continue to expressly address technical training on professional standards and SEC requirements, as such training is fundamental to establishing and maintaining the knowledge base necessary to perform public company audits.

We recommend expanding training requirements to include certain non-technical areas.<sup>1</sup> Academic research provides a sound basis for the PCAOB to consider requiring auditor training on the effects of psychological biases, social skills, and technology on auditor judgments and skepticism. While these areas do not reflect traditional technical areas, they reflect human and technology issues that can directly affect audit quality. The results of several academic studies suggest that additional training in areas such as (but not limited to) professional skepticism, psychological biases, social skills, and technologies may improve audit quality. For example, PCAOB inspections (PCAOB 2019a) and academic research (Beasley et al. 2000, 2013) often reveal that audit problems arise not from a lack of technical competency, but rather due to failures to act when issues are identified.

Academic research on professional skepticism has noted the importance of auditor experience, training, traits, incentives, mindset, and environmental and contextual factors in determining the extent to which auditors exercise skepticism (Nelson 2009; Hurtt, Brown-Libur, Earley, and Krishnamoorthy 2013; Brazel and Schaefer 2015). Many of these studies note various psychological biases that are at play when appropriate actions are not taken (e.g., Brazel, Jackson, Schaefer, and Stewart 2016; see Knapp and Knapp (2012) for a list of cognitive biases found to impact audit engagements). Requiring training on psychological biases would be consistent with the proposed addition to the engagement partner required competencies listed in the Concept Release: “Expressly including objectivity in the description of sound judgment, to prompt firms and their engagement partners to remain aware of and avoid biases that may impair sound judgment” (p. 31). Based on the above research, we believe, training to promote awareness and critical thinking may reduce negative impacts of bias in judgment making (also see Ranzilla, Chevalier, Herrmann, Glover, and Prawitt 2011).

Social skills, such as managing difficult clients, may also be a useful area for training. Bennett and Hatfield (2013) find that auditors collect less audit evidence to avoid interacting with management when the client is intimidating. Similarly, Eutsler, Norris, and Trompeter (2018) and Olsen (2017) find that client personality and behavior can impact the level of professional skepticism that auditors exercise. In addition, Glover and Prawitt (2013) note that cultural differences will lead to differences in the extent and manner that auditors challenge management.

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<sup>1</sup> We also believe it is important to ensure requirements are consistent with the guidance given in ISQM1 (A117) that states: “Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.”

Research is also starting to examine the impact of technology on audits, particularly, on how technology may impact auditors' judgments and decision-making. For example, Anderson, Hobson, and Peecher (2019) and Rose, Rose, Rotaru, Sanderson, and Thibodeau (2019) demonstrate that differences in visualizations impact how auditors interpret and develop audit responses. Others find that firms have increased auditors' use of technology-enabled audit processes, forms, and checklists in order to reduce regulators' criticisms, despite acknowledging that doing so may negatively impact novice auditors' ability to think critically and exercise professional skepticism (Lowe, Bierstaker, Janvrin, and Jenkins 2018; Boland, Daugherty, and Dickins 2019; Westermann, Cohen, and Trompeter 2019).

***Question 34** - Should the competencies of individuals in engagement or QC roles, in addition to the engagement partner and engagement quality reviewer, be addressed in a future PCAOB QC standard?*

Given PCAOB findings that engagement quality review issues are related to inadequate reviewer effort, improper review timing, and reviewers who are unqualified (Dickins, Fay, and Daugherty 2015), we recommend explicitly mentioning the expected competencies of team members in QC roles in a future PCAOB QC standard. For other individuals, it may be beneficial to add a statement requiring all individuals to be competent and capable for the role(s) they are serving on the engagement with a reference on what it means to be competent in that role. Following ISQM1 (A117), "Competence is the ability of the individual to perform a role to a defined standard and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes."

***Question 36** - Ensuring that firm personnel in QC and engagement roles have sufficient time to properly carry out their responsibilities is one aspect of firm resources under Proposed ISQM 1. Should a future PCAOB QC standard place greater emphasis on this requirement than Proposed ISQM 1 does? If so, how?*

We support this idea and commend the International Auditing and Assurance Standards Board (IAASB) and the PCAOB for directly addressing the importance of adequate auditor time as a key resource in ensuring audit quality. Research on audit problems (e.g., Beasley et al. 2000, 2013) and PCAOB inspections (PCAOB 2019a) reveals that audit problems often relate to a failure to complete certain tasks or failure to appropriately follow-up on red flags or other issues. One key reason for such failures appears to be time constraints; sometimes, there simply is not enough time to complete all the work in a high-quality manner.

Specifically, research indicates that the work environment in audit firms continues to be extremely challenging, with very long hours and intense workloads. For example, in a large sample survey study, Persellin, Schmidt, Vandervelde, and Wilkins (2019) find *average* busy season workweeks averaging 65 hours, with a range of 42 to 100 hours. The *maximum* hours worked per week averages 80 hours, with a range of 45 to 120 hours.

In a small sample interview study, Hermanson, Houston, Stefaniak, and Wilkins (2016) find similarly high workloads, with staff averaging 72 hours per week during busy season, and

partners averaging 62 hours per week. One staff interviewee reported once having 128 chargeable hours in a week, which leaves only 40 hours for sleeping, commuting, etc.

Beyond the clear evidence of long hours in audit firms, Persellin et al. (2019) also gather evidence about auditors' perceptions about the point at which audit quality begins to suffer. The authors state (p. 95):

*Our findings indicate that auditors are working, on average, five hours per week above the threshold at which they believe audit quality begins to deteriorate and often 20 hours above this threshold at the peak of busy season. Survey respondents cite deadlines and staffing shortages as two of the primary reasons for high workloads and further believe that high workloads result in decreased audit quality... **Overall, our findings provide support for the PCAOB's concern that heavy workloads are continuing to threaten audit quality, and suggest that the primary drivers of workloads might be the actual "root cause" of workload-related audit deficiencies.** [emphasis added]*

Similarly, former PCAOB board member Jay Hanson summed up his auditor workload concerns (Cohn 2013):

*How do you function if you are working 16 hours per day on a continual basis? How do you perform basic tasks, much less conduct the more difficult evaluations that require heightened skepticism and objectivity? How do you guard against the temptation to overlook difficult issues that will stretch out your workday even longer? If audit teams are working excessive hours, there is a problem.*

In sum, there is clear evidence that auditor workloads are very heavy, and auditors believe that they typically are working well beyond the point where audit quality begins to decline. Accordingly, we believe that QC standards need to require effective staffing of audit engagements, reasonable deadlines, and careful monitoring of auditor workloads.

Beyond the apparent direct effect of auditor workloads on reducing audit quality, we also believe that it is important to highlight a likely secondary effect. Specifically, due in large part to auditor workloads, an audit firm position is a very short-term stop for many individuals (see Hermanson et al. 2016; Hermanson, Hermanson, and Hermanson 2020).<sup>2</sup> Turnover from audit firms is quite high, and it appears that many new auditors have a "short-timer" mentality (e.g., Hermanson et al. 2016). It does not seem that a short-timer mentality is consistent with promoting high audit quality, as accountability to the firm and profession is not enhanced when the individual is planning to leave the firm and profession in the near future. Results from Bauer (2015) point to the same conclusion; he finds that heightening auditors' sense of professional identity increases their professional skepticism.

In conclusion, research on audit problems often reveals that some key audit tasks are not completed. Research on the audit firm work environment makes it clear that one likely cause of such failures is that much of the audit work is performed by individuals who are working very long hours (for relatively limited pay), and who plan to leave the audit profession in the near

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<sup>2</sup> All 10 of the audit staff interviewed by Hermanson et al. (2016) planned to leave public accounting.

future. We encourage the PCAOB to highlight the fundamental importance of adequate time (in addition to auditor incentives discussed below) as it revisits the QC standards.

*Question 37 - Should a future PCAOB QC standard expressly address how the firm's incentive system, including compensation, incorporates quality considerations? If so, how?*

Overall, research on auditor incentives provides evidence that (a) audit staff view their pay as unfair given the workload; (b) performance review risks are faced by lower level auditors who act with skepticism but fail to uncover misstatements; (c) commercial factors continue to be important determinants of compensation at the partner level; and (d) there are unintended consequences resulting from auditors' strong incentives to pass PCAOB inspections. Each of these areas is a fruitful area for PCAOB consideration in a future QC standard.

While starting salaries for new audit staff are generally in the mid \$50,000s for the Big 4 firms, the effective hourly rate earned by new auditors is likely less than other college graduates who earn an average of \$51,000 per year (Gee 2019), as the Big 4 do not pay overtime to audit staff and pay relatively modest bonuses (Hermanson et al. 2020). There is also evidence that staff auditors believe that their pay is unfair given the workload (Hermanson et al. 2016).

Still other research suggests that audit staff who are "quality minded" and exercise greater professional skepticism may not be rewarded for their efforts, but instead may receive a poor performance evaluation (Brazel et al. 2016; Brazel, Gimbar, Maksymov, and Schaefer 2019a; Brazel, Leiby, and Schaefer 2019b).<sup>3</sup> In other words, performance evaluations may incentivize some auditors to *not* exercise heightened skepticism, since auditors often feel that their procedures are not likely to uncover misstatements or problems (Carlisle, Gimbar, and Jenkins 2019). Brazel et al. (2019b) further find that incentives for auditor skepticism must be consistent to be credible. One worrisome implication of research is that auditors may be "trained" early in their careers to not follow the evidence and not behave in a professionally skeptical manner. If they do exercise skepticism, their performance reviews may suffer.

Academic studies have also investigated the potential relation between incentives and audit quality by examining the extent to which audit partner compensation is based on commercially-oriented versus professionally-oriented measures. For example, archival studies by Knechel, Niemi, and Zerni (2013) and Vandenhaute, Hardies, and Breesch (2019) examine the relation between partner compensation scheme and audit quality in non-U.S. settings at Big 4 firms and firms of varying sizes, respectively. Each study finds that partner compensation is largely determined by commercially-oriented metrics (e.g., revenue generation and firm profitability) rather than professionally-oriented metrics (e.g., abnormal accruals in prior audits and audit reporting errors). On the other hand, a recent qualitative study by Coram and Robinson (2017)

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<sup>3</sup> For example, Brazel et al. (2019a, 135) find that audit seniors "...reward audit staff who exercise appropriate levels of skepticism and identify a misstatement (positive outcome). However, when no misstatement is identified (negative outcome), evaluators penalize staff who exercise appropriate levels of skepticism. One factor causing this outcome effect may be that exercising skepticism typically causes budget overages due to additional testing." Thus, audit staff received a poor performance evaluation for being skeptical and pursuing inconsistent evidence when no misstatement was identified.

that relies on interview data from the Big 4 and four mid-tier accounting firms in Australia finds that firms use more professionally-oriented metrics than in the past, including metrics related to audit quality, such as material breaches of any quality requirements from internal or external quality reviews, level of consultation with quality specialists related to risk issues, and measures of independence. Thus, there is some evidence that firms' incentive systems do incorporate quality considerations, at least in other countries. Further, Carter and Spence (2014) examine who rises to the partner level in Big 4 firms, highlighting the importance of a commercial orientation. Consistent with these findings, Cohen, Dalton, and Harp (2017) note that auditors with a presumptive doubt mindset (which research has shown to improve audit quality via increased professional skepticism (e.g., Hurtt et al. 2013; Quadackers, Groot, and Wright 2014)) have higher turnover intentions and report lower levels of organizational citizenship than auditors with a neutral (less skeptical) mindset.

There is also some evidence that external incentives associated with the PCAOB's regulatory inspection regime may be having unintended consequences on the profession. Westermann et al. (2019, 724) suggest that while the PCAOB inspection process has increased audit quality, it has not been without consequences:

*...there exists the perception that the stress of [PCAOB] inspections affects both the retention of "good business minded people" and recruitment of new entrants into the profession. This may prove consequential for the future of audit quality, as the 'right' people may not stay in auditing or be attracted to auditing...some partners perceive that being a good auditor has come at the expense of being a good accountant...The emphasis on audit process and concurrent de-emphasis on technical accounting could ultimately lead to audits themselves, and ultimately audit quality, falling short (e.g., inability of auditors to understand new revenue recognition and leasing standards).*

Westermann et al. (2019, 696) summarize their overall findings by stating that "...our data imply that the contemporary work practices of auditors are centrally motivated by passing an inspection. As a result, there is little incentive to improve audit quality beyond the PCAOB's requirements (Peecher, Solomon, and Trotman 2013) as there is no public recognition of exceptional audit quality and thus no positive firm effects (e.g., increase in audit fees, reputation gains)." Findings reported by Westermann et al. (2019) and others suggest that if a future PCAOB QC standard expressly addresses how firms' incentive systems incorporate quality, considerations of the definition and parameters used to assess quality are of paramount importance.

**Question 45** - *Should firms be required to perform an annual evaluation of their QC system's effectiveness? If so, should the required evaluation be as of a specified date or for a specified period? How should the date or period be determined?*

We support a requirement for firms to perform an annual evaluation of their QC system's effectiveness given the importance of the QC system in achieving audit quality. Prior academic guidance has shown that effective quality control systems are inversely related to incidences of reduced audit quality behaviors (Malone and Roberts 1996), contribute to a lower likelihood of audit procedures not identifying material misstatements (Wooten 2003), and promote higher

quality audits (Krishnan and Schauer 2000; Wooten 2003). In addition, the importance of a firm's quality control system is evident in the PCAOB's approach for the remediation of quality control criticisms identified during the inspections process (PCAOB 2019b).

The introduction of transparency reporting in the European Union (EU), Australia, and Japan provides further support for an overall evaluation of the firm's quality control system effectiveness (IOSCO 2009). Both the EU's *Eight Company Law Directive* and the *Australian Corporations Legislation Amendment (Audit Enhancement) Act 2012* include in the transparency reporting items a requirement to describe the firm's internal quality control system ("IQCS") and include a statement on the effectiveness of the IQCS (Fu, Carson, and Simnett 2015). The Japan CPA Act requires commensurate evaluation and disclosure related to the "performance of business operations and maintenance of service control framework" (IOSCO 2009; Fu et al. 2015). When evaluating the efficacy of EU transparency reporting, Deumes, Schelleman, Vander Bauwhede, and Vanstraelen (2012) find that of the required reporting elements, audit quality is only associated with the firm's statement on the effectiveness of its internal quality control system. This is consistent with the earlier findings of Malone and Roberts (1996) that a strong internal quality control system is a factor in delivering high quality audits.

Consistent with the provisions of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, we believe that the required evaluation should be as of a specific date. This would provide an evaluation period that is aligned with the assessment and reporting period required when audit firms evaluate management's internal control assessment. The date should be determined on a date consistent with any annual reporting or evaluation required by the regulator, such as the date for filing the Form 2 Annual Report (e.g., June 30).

***Question 46*** - *Should firms be required to report to the Board on their annual evaluations of QC system effectiveness? If so, what should be included in the report? Should firms be required to disclose any performance measures that were important to their conclusion about their QC system's effectiveness? Should firm reports be publicly available (see also Question 39)?*

We support the requirement for firms to report to the Board on their annual evaluations of QC system effectiveness. Reporting of the annual evaluation of QC system effectiveness would align the PCAOB's efforts with other jurisdictions in promoting transparency in audit firm operations (IOSCO 2009). However, the recent literature on the effectiveness of transparency reporting is mixed. Girdhar and Jeppesen (2018) performed a qualitative analysis by reviewing Big 4 transparency reports and performing interviews with audit firm personnel and regulators. They identify wide variation in report content within Big 4 firm networks, but interviewees commented that the transparency reports were limited in use and primarily read by competitors and oversight bodies and not by the public (Girdhar and Jeppesen 2018). As previously mentioned, Deumes et al. (2012) show that the internal quality control effectiveness statement is the only factor associated with audit quality. As such, a more streamlined reporting related to internal quality control only would be better received by the market users and more beneficial in linking firm operations to audit quality. Report content could include the framework used in



evaluating the quality control system, the firm's process for the evaluation, and the results of the evaluation.

We believe that firms should use their judgment in determining what performance measures are necessary to support their QC system effectiveness. The voluntary disclosure literature provides support for this approach. Healy and Palepu (2001) conduct a review of the empirical disclosure literature and highlight studies that show that voluntary disclosures (e.g., management forecasts) are comparable in credibility to audited financial information and are more accurate than concurrent analysts' forecasts. In addition, firms that provide voluntary disclosures benefit from increased stock liquidity, lower cost of capital, and increased analyst following (Healy and Palepu 2001). In the audit setting, voluntary disclosure by firms could lead to reduced information asymmetry between the providers of audit services and the financial statement users that benefit from them. This could improve the flow of capital as users are more informed about the audit operations and quality of the firms that provide financial statement assurance. It is worth noting that academic research has identified drawbacks related to disclosure, in that disclosure can lead to more biased subsequent reporting via moral licensing (e.g., Koch and Schmidt 2010; Griffin 2014; Canace, Salzsieder, and Schaefer 2020).<sup>4</sup> However, in this case, the benefits likely outweigh such potential disadvantages.

To assist in the dissemination of information to audit report users, firm reports on QC system effectiveness should be public. This practice would be consistent with the public release of transparency reports in the EU and Australia.

***Question 47** - Should we require the firm's top leadership to certify as to their QC system's effectiveness, either as a part of or in addition to the firm's report on their QC system's effectiveness?*

We do not support a requirement for the firm's top leadership to certify as to their QC system's effectiveness either in part or as a supplement to the firm's report on QC system effectiveness. Our response is based on evaluation of prior literature on CEO/CFO certifications by the Sarbanes-Oxley Act and the engagement partner signature requirement in the United Kingdom. Griffin and Lont (2005) provide a direct evaluation of the market response to the CEO/CFO certification requirement. They find an increase in investor response, via unsigned excess returns, on three event dates related to the implementation of the certification requirements. Lobo and Zhou (2006) find that managers' discretionary reporting became more conservative in the post-SOX period when CEO/CFO certifications were required. Bhattacharya, Groznik, and Haslem (2007) use a natural experiment on the date of initial CEO/CFO certification for 688 companies and find that it was a non-event for both certifying and non-certifying firms at that date. These mixed results indicate that CEO/CFO certifications may not lead to improved outcomes for financial statement users. Additionally, Geiger and Taylor (2003) provide a review of the SOX certifications and a research agenda for future evaluation.

When evaluating the engagement partner signature requirement in the UK, Carcello and Li (2013) find that audit quality improves with the engagement partner signature requirement;

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<sup>4</sup> A moral license can be described as the often-unconscious feeling that a seemingly unbiased act licenses a different biased act without discrediting the actor (Canace et al. 2020).

however, audit fees increased due to the requirement. In a theoretical study, Carcello and Santore (2015) find that the engagement partner signature requirement may not be a socially optimal solution, as the requirement would reduce the welfare of partners and audit firms.

Taken together, the evidence shows that there is a tradeoff in obtaining QC system certification which improves audit quality but may reduce social and economic outcomes for audit firms, partners, and users. Prior research on similar issues (CEO/CFO certifications and audit partner signatures) does not provide compelling evidence that QC system certifications would add value.

***Question 52** - Are the roles and responsibilities described in this concept release appropriate? Are there other roles that should be added (e.g., chief ethics officer, chief technology officer)? Are there further responsibilities that should be added?*

In addition to the general roles and responsibilities described in the ISQM 1, the Board is considering adding language describing firms' responsibilities for independence quality controls and specific responsibilities related to "all firm personnel". The responsibilities listed for personnel on page 43 include supervision but do not include any reference to the important role of coaching or on-the-job teaching that is pervasive in the auditing industry.

We recommend the Board expand the responsibilities described under "all firm personnel" to include responsibilities related to coaching and teaching others within the firm in order to foster a learning culture. According to Grohnert, Gijsselaers, Meuwissen, and Trotman (2020), "a firm's learning culture specifically addresses how members of a firm value learning as part of their daily practice by identifying skills needed for future performance and providing opportunities for developing those skills, by encouraging critical questioning of procedures and judgments, by fostering learning from errors through open communication, grounded in an atmosphere of trust and accountability (Edmondson 2008; Marsick and Watkins 2003; Cerasoli et al. 2018)." Moreover, Gold, Gronewold, and Salterio (2014) find that auditors are more likely to report errors when the firm fosters a supportive culture where sharing information is encouraged.

Additionally, we believe the firm should employ a Chief Ethics Officer. There are accounts in the press where ethics seem to be lacking in accounting firms. One case, for example, regarding Mr. Mauro Botta, who was fired by his firm after a whistleblowing incident, was cited in a letter dated February 10, 2020 to the U.S. House Financial Services Committee (Bramwell 2020). The letter criticizes the PCAOB for not doing enough in the enforcement arena. Other ethics-related areas include age and gender discrimination lawsuits, sexual harassment, and bullying. Firms are also receiving bad press about non-disclosure agreements (Marriage 2019). These types of press coverage hurt the reputation of the firm and profession.

Collectively, these press releases suggest poor governance and quality controls at the firm level. While the PCAOB should focus primarily on the conduct of the audit, one way to address the area of firm management is through quality controls addressing governance and ethics. We therefore suggest that the Board consider requiring a Chief Ethics Officer who receives and investigates whistleblowing complaints. That person should report directly to the firm's governing board. We also recommend requiring an annual report that details the number and types of complaints (poor audit work, abusive work environment, etc.). This is an important

dimension for the PCAOB to monitor as the complaints may indicate the firm's overall ethical environment. One might make an argument, for example, that a firm that tolerates sexual harassment may not be able to enforce ethics in other areas of its practice.

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