

Re: PCAOB Release No. 2015-005 July 1, 2015; PCAOB Rulemaking Docket Matter No. 041

CONCEPT RELEASE ON AUDIT QUALITY INDICATORS

Dear PCAOB:

My comments are directed toward proposed audit quality indicators using government enforcement actions (SEC, PCAOB, DOJ, Ontario Securities Commission, and others) and private litigation. My research approach to using these data to construct relative audit quality indicators was summarized by Robert Barker in *BusinessWeek* at <http://www.bloomberg.com/bw/stories/2002-10-27/auditing-the-auditors>. My research is ongoing and has evolved since that time. I stand ready to assist the PCAOB in any way requested.

There are pros and cons to using this data for audit quality indicators. Such audit quality indicators would be crude and potentially misleading. However, the same objection can be raised against the other data the PCAOB is considering, student evaluation of professors' teaching, and ratings of physicians, hospitals, and attorneys. On balance, it would be worthwhile to develop audit quality indicators based on government enforcement actions and private litigation.

There are two main difficulties with using this genre of data for audit quality indicators. First, some believe it to be unreasonable to compare Big Four auditors with auditors of smaller CPA firms. This is because it is unclear whether it is possible to control for the dramatically different client portfolios of the two different categories of CPA firms. A way to address this would be to only compare auditors within their own category of CPA firm, if necessary. Second, many auditor litigation outcomes are influenced by matters which have nothing to do with auditing or even accounting. Some examples include statute of limitations, the difficulty of obtaining discovery, and the difficulty of executing proper service of process and enforcing judgments in foreign jurisdictions.

Perfect should not be the enemy of the good. Work should proceed on audit quality indicators using government enforcement actions and private litigation.

Thank you for the opportunity to express my view on the Audit Quality Indicators Concept Release.

Sincerely,

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