

Public Company Accounting Oversight Board  
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Actuary

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- **Release No. 2015-005**
- **PCAOB Rulemaking Docket Matter No. 041**
- **Concept Release on Audit Quality Indicators**

Dear Sir.

Thank you for giving us the opportunity to comment on your Concept Release on Audit Quality Indicators. You are seeking comment on the content and possible uses of a group of potential “audit quality indicators.” The indicators are a potential portfolio of quantitative measures that may provide new insights about how to evaluate the quality of audits and how high quality audits are achieved. Taken together with qualitative context, the indicators may inform discussions among those concerned with the financial reporting and auditing process, for example among audit committees and audit firms. Enhanced discussions, in turn, may strengthen audit planning, execution, and communication. Use of the indicators may also stimulate competition among audit firms focused on the quality of the firms’ work and, thereby, increase audit quality overall. Issues raised by the release include: (i) the nature of the potential indicators; (ii) the usefulness of particular indicators described in the release; (iii) suggestions for other indicators; (iv) potential users of the indicators; and (v) an approach to implementation over time of an audit quality indicator project.

I strongly support this proposal, which should enhance the dialogue and provide new insights on ways to enhance audit quality, and create incentives for competition in quality. However, I caution that the production and analysis of audit quality indicators (AQIs) will not provide a neat formula or blueprint for determining audit quality, but will rather guide discussion on developing a better understanding of the audit process and the factors that could influence audit quality. The relevance of particular AQIs, and their comparability across audit firms and industries, will depend on the facts and circumstances of each particular case, and therefore analysis of AQIs will depend on the context and situation in which they arise. I would further caution that analysis of AQIs at a particular point in time will be less helpful than analysis of trends in particular AQIs over time.

Please note that the comments expressed herein are solely my personal views

Finally, I do hope that the introduction of AQIs will not have unintended consequences around steering the audit process and perceptions of quality based on AQI results. This is something that we have seen before with these proposals; i.e. firms and other interested parties may start to use AQIs as kind of “rating”, which can lead to firms targeting rating outcomes rather than genuine and sustained improvements in audit quality.

Yours faithfully

C.R.B.

Chris Barnard