



September 28, 2015

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Via e-mail: comments@pcaobus.org

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Release No. 2015-005, July 1, 2015
PCAOB Rulemaking Docket Matter No 041
Concept Release on Audit Quality Indicators
Notice of Roundtable

The Accounting Principles and Assurance Services Committee (the "Committee") of the California Society of Certified Public Accountants ("CalCPA") respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 43,000 members. The Committee consists of 57 members, of whom 43 percent are from local or regional CPA firms, 30 percent are from large multi-office CPA firms, 13 percent are sole practitioners in public practice, 9 percent are in academia and 5 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee commends the Board for its efforts to identify quantitative indicators of audit quality (AQIs). To date, indicators of audit quality have usually been evaluated on a qualitative basis, but it has been difficult to measure those qualitative evaluations on an objective basis when attempting to compare audit firms. Ironically, the Committee notes that many of the AQIs are the same types of indicators used in qualitative assessments.

Discussion of the proposed AQIs under the three part framework of "Audit Professionals," "Audit Process" and "Audit Results" is useful and may provide focus if more proposed AQIs are added or some are deleted.

The Committee believes that many firms are using most of the AQIs at some level in managing the firm and managing audit quality at the office level and at the engagement level. However, the largest firms will tend to be more structured on how they are used and may quantify some of them, some locally and some nationally, whereas the need for structure and quantification diminishes as firm size decreases and firm management is closer to day-to-day operations.

The Committee concluded that it would not attempt to answer the questions posed in the release, but to deal with the issues on a more "macro" basis. To do this, the Committee reviewed the twenty-eight proposed AQIs and concluded as follows.

The proposed AQIs that were considered most important were under the heading "Audit Professionals," specifically:

1. Staffing Leverage
2. Partner Workload
3. Manager and Staff Workload
4. Technical Accounting and Auditing Resources
6. Experience of Audit Personnel
7. Industry Expertise of Audit Personnel
11. Audit Hours and Risk Areas

Only two of the proposed AQIs under "Audit Process" were among those considered most important:

17. Investment in Infrastructure Supporting Audit Quality
18. Audit Firms' Internal Quality Review Results

Finally, only one of the proposed AQIs under "Audit Results" was among those considered most important:

24. Timely Reporting of Internal Control Weaknesses.

In addition, one additional AQI was suggested: Audit Client Acceptance and Retention. This includes the ability of a firm to render audit service to an entity, and initial and continuing assessment of audit risk and management integrity.

Conversely, the following were considered the least important among the proposed AQIs:

8. Turnover of Audit Personnel
9. Amount of Audit Work Centralized at Service Centers
13. Results of Independent Survey of Firm Personnel
23. Inferring Audit Quality from Measures of Financial Reporting Quality
25. Timely Reporting of Going Concern Issues
27. Trends in PCAOB and SEC Enforcement Proceedings
28. Trends in Private Litigation

The Committee suggests that the Board further study just how useful the proposed AQIs might be to audit committees in the process of selection and retention of auditors. Many of the proposed AQIs are considered currently as part of this process, and as the Board observes, efforts may be made to quantify some of them. However, firm-wide data are often of minor importance. The important factors are engagement related: the capacity of the firm to handle the engagement at each location, personnel assigned, industry expertise, audit approach, and audit hours. Finally, and, often very important, is the "chemistry" between the audit committee and management of the entity on the one hand and the senior

audit engagement personnel on the other hand. Some of the engagement factors may be quantified, and get far more attention than firm-wide data.

The Committee observes that there likely will be significant differences in quantified AQIs for different size firms. The large international firms (the Big 4) will probably have more similarities than differences among them at the firm-wide level, which might cause one to question the usefulness of any comparisons among them. These large international firms audit the preponderance of SEC registrants, so the corollary question might be whether there is any benefit to even getting the data if all the data will be similar. There will probably be more pronounced differences among smaller international firms, national firms, regional firms and local firms, but interpretation of comparisons of quantified AQIs may be heavily dependant on qualitative data, which may compromise use of quantified AQIs.

Consistent definition of how to quantify the AQIs from firm-to-firm may be very challenging. For example, is staffing leverage based on headcount or hours? How are technical accounting resources measured in a decentralized firm? Are training hours the same as hours for CPE credit, even if they are non-technical? How are differences among firms in what are considered audit risk areas to be dealt with? And, explanations in the absence of guidance may not be helpful.

The Committee recommends that the Board study the cost of accumulating quantified data on AQIs, and whether quantifiable benefits warrant the cost. While accumulating the data may be expensive, particular consideration should be given to whether the cost for smaller firms will be disproportionately high in relation to the cost at larger firms.

The Committee believes the AQI project is still very much a "work-in-process." It seems to the Committee to be a challenging project, and we recommend that the Board continue with its studious deliberation of all of the issues until they are resolved to the substantial satisfaction of all affected parties.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "A.J. Major III". The signature is written in a cursive style with a horizontal line under the name.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants