



September 29, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington DC 20006-2803

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 041, *Concept Release on Audit Quality Indicators*

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) *Concept Release on Audit Quality Indicators* (Concept Release), and we respectfully submit our comments and recommendations thereon. Overall, we support the Board's initiative to develop a set of quantitative indicators that, when provided with appropriate qualitative context, could inform discussions regarding audit quality and enhance this element of financial reporting quality.

We are supportive of the PCAOB establishing a framework of audit quality indicators (AQIs) that could be used as a basis for enhancing audit committee dialogue and oversight, and, for certain indicators, public disclosure; although, we expect specific elements used within the framework will vary depending on purpose. For example, some metrics will be more relevant when a new audit proposal is being assessed compared to ongoing dialogue with the audit committee. Similarly, we believe only some measures provided to an audit committee would also be appropriate and meaningful for external publication. Specifically, certain firm-level indicators may provide insights into the protocols and actions adopted by the firm to enhance audit quality. In the appropriate context, those types of indicators could be informative to the general public. However, as indicators become engagement-specific, we feel the greater need for context lends itself to being most useful to audit committees in their decision-making and oversight.

Further, we believe a large contributor to the success of the initiative is the quality and breadth of context given by auditors for each relevant quantitative indicator within the framework. We agree with the Board that such context is essential to understanding the meaning and implications of each AQI.¹ As this project moves forward, we encourage the Board to continue to maintain focus

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on the importance of qualitative context and consider providing guidance on how firms may effectively prepare and communicate such information.

Firm-level audit quality indicators

As noted in the Concept Release, some of the larger firms are, to a certain extent, already disclosing some of the firm-level indicators discussed in the Concept Release in their annual transparency reports (e.g., tone at the top and approach to partner remuneration). We believe this provides a basis to identify measures that could be reported in more detail through the AQI process. Our previous comments on providing appropriate context would need to be considered if an approach that included making such indicators public is to be pursued. We do see a challenge with respect to scalability of certain firm-level measures. For smaller firms, certain information may be difficult to collect, such as time allocated by resources in a firm's national office since such resources may continue to serve clients while carrying out their national office duties.

We also note that indicators with respect to monitoring and remediation are already communicated to audit committees, and some information, such as firm-level PCAOB inspection results, is available to the public through the PCAOB's website. While we support the continuation of such communications, we encourage the Board, in their efforts to narrow the pool of indicators to only those that are most informative, to consider whether indicators tied to information already publicly available would be duplicative. This is especially important because we agree with the possible unintended consequence noted in the Concept Release² that the use of AQIs could spread audit committees' attention too thin. This could be alleviated through (i) narrowing the number of indicators within the framework and (ii) collaboration between an audit committee and the external auditor to agree on which indicators are most beneficial to discuss given the engagement circumstances.

There are certain suggested indicators within the Concept Release that we do not believe would be useful when considering audit quality. Many of the suggested indicators within the "Audit Results" category, such as frequency and impact of financial statement restatements for errors, are extremely susceptible to hindsight bias, which could have unintended consequences since, in some cases, it is likely that no amount of context could be provided to overcome such bias. Further, we believe timely reporting of internal control or going concern matters would not inform audit quality as these situations are driven largely by facts and circumstances of the individual engagement. Additionally, we suggest that in order to use surveys as an indicator of quality, there would need to be a sufficient response rate in order for the results to be published, and safeguards over the design and wording of the survey instruments would need to be developed in order to ensure that the selection is from a statistically complete population.

Engagement-level audit quality indicators

We are also supportive of engagement-level AQIs (in addition to firm-level AQIs) and believe they will play an important role in the framework. However, because these indicators are more

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focused on specific engagements and may require greater qualitative context, we believe it would be most appropriate to focus development of indicators most relevant to audit committees and not to require these to be made publicly available. We do not believe that sufficient context could be provided to a third party not involved in the discussions between the auditor and the audit committee and as a result could potentially make inappropriate inferences or decisions.

We also believe that audit committees are in the best position to evaluate and take appropriate actions with respect to engagement-level indicators and would benefit most from the goal of the project – to develop a suite of indicators that signal quality in the conduct of an audit. As noted in the Concept Release, the candid discussions that occur between the audit committee and the auditor are critical in evaluating not just the quality of the audit but also providing insight into the overall financial reporting process of the company. Audit committees are best poised to assess what indicators are most relevant (e.g., industry competence, involvement of auditor specialists and national office personnel) and whether an indicator (or group of indicators) suggests a potential audit quality issue. Those insights can inform the audit committee’s determination of whether actions need to be taken with regard to changes in the makeup of the engagement team, use of network firms or shared service centers, and retention of the external auditors, among other actions. We do not believe engagement level indicators such as those described above would drive informed, appropriate actions by investors or other stakeholders.

A framework for engagement-level indicators will be useful to complement audit committee communications required by Auditing Standard No. 16, *Audit Committee Communications* (AS 16). We believe that engagement circumstances and the areas deemed most important by the audit committee will likely dictate which indicators are most relevant for a particular engagement. Therefore, as discussed above, an optional framework that provides a recommended suite of indicators would allow flexibility based on audit committee needs and engagement circumstances.

We feel that certain indicators suggested in the Concept Release would be more beneficial than others. Particularly, indicators related to competence and focus, when provided with the appropriate qualitative context, could be most informative to audit committee discussions. We believe the data necessary to calculate these indicators would be generally available.

Implementation and scope

The AQI project demonstrates a potentially innovative way of considering and quantifying possible aspects of audit quality. Such innovation, as noted in the Concept Release, requires caution in both designing the specific indicators and determining applicability. Therefore, we are supportive of a phased approach. A possible approach would be to begin with a small number of engagement and firm-level indicators in the framework whereby use of such indicators is voluntary and the information would only be shared with audit committees. Such indicators could be identified through leveraging existing feedback from the Center for Audit Quality pilot testing and other input the Board’s Office of Research and Analysis has received thus far. We agree that pilot testing and further outreach as the project moves forward are important aspects of refining the indicators and may also inform other PCAOB projects such as potential changes to the firm quality control standards.

In order to maximize the possible benefits, we believe AQIs could apply to all registered public accounting firms. However, as noted above, we agree with the concerns noted in the Concept Release with respect to scalability on certain of the potential indicators. This will need to be considered as the Board continues to contemplate scope. We do not recommend phasing in AQIs based on size of audit firm since we share the concern cited by the Board in the Concept Release.³ Rather, we support phasing in the proposed framework through the number and nature of indicators within the framework, as discussed above.

A phased approach could also be considered from an industry perspective. Certain AQIs will be relevant to all industries, but we believe there are sufficient differences within industries, such as employee benefit plans and brokers and dealers, where industry-specific indicators may be useful. The project should acknowledge that certain industries have differing characteristics and some AQIs may be more relevant in some industries than others. By phasing in industry-specific AQIs, the Board could study the impact on and obtain feedback on potential benefits to each unique industry.

Summary

In summary, we support moving forward with the project and we agree with the goal of providing a “balanced portfolio” of relevant indicators that when accompanied by, and assessed with, appropriate context can be used to inform discussions regarding audit quality both within an audit firm and with audit committees. We encourage the Board to continue its interactions and observations with respect to other audit quality initiatives in progress, and we look forward to additional opportunities to participate in future Board or Staff outreach as this project moves forward.

We would be pleased to discuss our comments with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at (704) 632-6834 or Trent.Gazzaway@us.gt.com.

Sincerely,



³ Page 27 of PCAOB Release No. 2015-005 dated July 1, 2015