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Re: PCAOB Rulemaking Docket Matter No. 041

Mr. Gregory J. Jonas
Director, Office of Research and Analysis
1666 K Street, NW
Washington, D.C. 20006

Mr. Jonas,

I am responding to the PCAOB's request for comments on Release No. 2015-005, "Concept Release On Audit Quality Indicators." I congratulate the Board on recognizing the need for improving the lot of investors by adding more information for them to assess. For years, the auditor's opinion, while providing a standard reference, has said nothing about the level of audit intensity and veracity. It is only an assertion, without much in the way of facts to support or disprove it.

The availability of audit quality indicators would provide investors with at least some useful information to assess the assertions contained in the audit opinion. For now, all investors can examine is the audit fee information – and that tells them very little, unless they are firm believers in the proverb "you get what you pay for." Even then, the audit fee says little and doesn't make complete sense to outside observers. I have attached an excerpt from a report my firm has produced, which illustrates the pitfalls of trying to make any valid observations about the work performed during an audit based on the publicly available fee information. More information is necessary for investors to understand this, and the proposed audit quality indicators provide it.

Some might question why investors should care. After all, they don't seem to worry about auditing beyond "checking the box" on the annual proxy. That may be true – when there are no significant audit failures. Should one occur again, investors would certainly care, even though it would be too late. I believe the proposal for audit quality indicators is a proactive step – one that provides sunshine on a dark process, and one that would stimulate competition for audit quality. Competition improves the breed, and the auditing profession has only seen a lessening of competition in the past twenty-plus years as firms have combined. Furthermore, the competition existing in the auditing profession has never been rooted solely in audit quality - because it has never been measured. There are more publicly available statistics on fantasy sports teams than there are about the important work done by auditors. I believe the PCAOB is right to do something about that situation.

In closing, I would recommend the PCAOB move this project into the rule-making phase. Please do not hesitate to contact me if you have any questions about this letter and the attached report. Best regards.

Sincerely,

Jack Ciesielski

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THE ANALYST'S ACCOUNTING OBSERVER

Jack T. Ciesielski, CPA, CFA

Volume 24, No. 8 *July 29, 2015*

Can Regulators Make Audits Matter More? Three Proposals Offer Some Hope

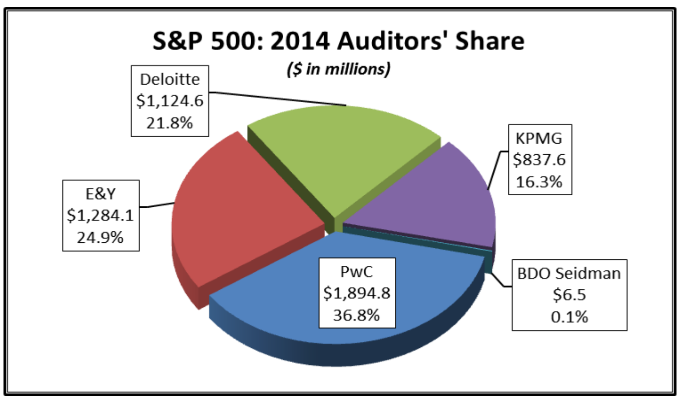
Investors care about the inputs to earnings: the revenues, the costs of production, and the taxes. They'll agonize over changes in the cost of wheat, or steel, or labor, and torment their earnings models endlessly to calculate the effect of an input's price change on earnings per share. Usually, there isn't clear visibility into what the inputs may be in the first place; auto makers, for instance, don't divulge the tons and dollars spent on steel each year. Consulting firms don't release the different classes of employees, with pay rates and head counts. In the end, many investors and analysts are simply making educated guesses about the different inputs and the effect of price changes on them.

There's one input incurred to directly benefit investors, yet they rarely examine it - and that's the cost of the annual financial statement audit. It's an important function that engenders confidence in the financial statements and the capital markets, a function nobody misses until it's too late - like in the early 2000's. Investors don't pay attention because it's not like audit fees are so great that they put earnings at risk; you don't hear of companies missing earnings forecasts because of "unexpected increases in audit fees."

One reason investors care little about fees is the auditor's opinion itself. The auditor's opinion is the financial reporting equivalent of a horseshoe crab - a living fossil, little changed since prehistoric days. The auditor's opinion has changed little since the 1940's - almost the Stone Age given the pace of change in the investing world. Essentially a rubber stamp, the audit opinion says nothing about the work and thinking behind it. Three early-stage proposals from the Public Company Accounting Oversight Board and the Securities & Exchange Commission might provide much more quantitative information about the audit and make investors take notice.

I. Audit Fees: How Much Bang For the Buck?

As it stands now, who knows? The bucks are large: in 2014, the S&P 500's fees for audit and audit-related services amounted to $5.15 billion, divvied up among the Big Four audit firms (plus a sliver to BDO Seidman) as shown in the graph below. Compare that to the level in 2002, the year the Sarbanes-Oxley Act was born: $1.94 billion, a little over PwC's 2014 share. Companies may be bigger and more complex now - but investors should be curious about what they get for their dollar.



<u>All that investors currently see is a pass/fail grade in the audit opinion.</u> If they look in the proxy statement, they'll find the amount of audit (and other) fees, along with sanitary assurances that the audit committee has reviewed and discussed the financial statements with management; discussed audit matters with the auditor, including the auditor's own independence; and recommended to the board of directors that the financial statements be included in the firm's annual report on Form 10-K. Mildly reassuring, the disclosures are often boilerplate and convey little beyond the audit committee declaring, "we did our job." Investors like data, and this *isn't* data they like.

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R.G. Associates is:

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Executive Summary

● The annual audit costs investors over $5 billion/year in just the S&P 500, yet they know little about what they get for those audit fees. Some of the reason is that they don't care: companies don't miss earnings estimates because of audit fees. Some of the reason is that there isn't enough information to pique their interest.

● Those fees could increase by nearly 50% without affecting earnings per share by a single penny; at 71 S&P 500 firms, the annual audit doesn't even matter to EPS by a single penny. It's common to see widely disparate audit fees for similar companies, but investors can't tell if a quality audit was performed. Price is not much of a guide.

● The PCAOB has issued two proposals: one is a concept release suggesting that certain "audit quality indicators" be developed and published, and the other is a re-proposal of a standards amendment that would release an audit engagement partner's name for each audit.

● The audit quality indicator (AQI) proposal is the more ambitious of the two. It posits the creation of 28 AQIs that would provide mostly quantified information about the individuals involved in audits, the audit process itself, and the audit results. Most of them would relate to individual audit engagements and many would also be applied on a firm-wide basis. Comments are accepted through 9/28/2015.

● The other PCAOB proposal would require disclosure of an engagement partner's name on a new PCAOB "Form AP," to be held in a searchable database. Comments accepted until 8/31/2015.

● The SEC proposal would increase information about the audit committee's communications with the auditor, and the frequency of those communications, as well as specific information about the auditor selection process and criteria for their selection, the number of years served by the auditor, and information about other firms taking part in the audit. The comment period runs through 9/8/2015.

It's becoming a Washington tradition: in odd-numbered years, the Public Company Accounting Oversight Board (PCAOB) publishes a proposal to bring more information to investors about the audit performed on their behalf. The typical result: investors throw little support behind it, the large audit firms do their best to snuff changes, and companies howl that any changes would increase costs. In 2009, the PCAOB proposed that audit engagement partners be identified in the audit report. (Still waiting.) In 2011, the PCAOB floated a concept release considering a revamped audit report[1]; in 2013, it proposed an auditing standard based on the feedback from the concept release.[2] (No movement there.) Now in 2015, the PCAOB has issued two proposals: one, a proposal to amend auditing standards to require disclosure of the audit engagement partner's name in a new PCAOB document instead of the audit report, and two, an ambitious concept release proposing the creation of "audit quality indicators ("AQIs") that will give investors some real data to analyze about the auditor's performance. For good measure, the SEC has issued a concept release that explores additional disclosures about the work of the audit committee.

All three of those proposals are discussed in the next section, with an emphasis on the PCAOB's audit quality indicator project - it's the most promising one of the three, in terms of bringing information to investors that they can actually use. The process of selecting auditors and paying them is a pretty mindless affair - it's in the hands of the audit committee, who pledges that they've done right by investors in selecting and recommending the auditor, just like the audit opinion is the pledge of the auditor that they've done right by investors. If the PCAOB can get those AQIs in front of investors, they'll be able to assess the veracity of those two pledges. Just don't hold your breath waiting for them to show up - the PCAOB's track record in producing actual changes in reporting from their proposals is discouraging.

<u>Before delving into the proposals, understand a few things about audit fees.</u> First, don't be misled by the $5.15 billion in 2014 fees[3] and the 165% increase from 2002[4]: audit fees are not excessive in terms of absolute dollars, nor on the basis of earnings per share. In the S&P 500, there are 71 firms with audit and audit-related fees that did not take one penny away from earnings per share in 2014, shown in the table on the next page. Relative to what investors get for the price, however, they might be very excessive: investors are clueless about the value of the services rendered because there is so little information about the audit. These proposals provide a possible remedy for their ignorance.

($ in millions)	Incremental Fees, If Increased Up To $.0049/Share: All 500	Firms Paying <$.01/Share
PwC	$775.4	$47.5
E&Y	719.1	125.9
KPMG	454.9	42.4
Deloitte	449.6	43.9
BDO	0.6	--
	$2,399.6	$259.7

Another thing to understand about the magnitude of audit fees: they could be raised significantly and still not matter one cent to earnings per share. The table at left is based on 2014 auditing and related fees and diluted shares. The first column shows that the Big Four (plus BDO) could add *$2.4 billion* to their coffers each year from raising their audit fees to a point where the incremental fee is $.0049 per share. At that level, EPS would not change one cent. Shareholders would be indifferent to higher audit fees services being provided - unless they're getting nothing in return. The second column shows the incremental fees that could be levied on firms where the audit fee already didn't amount to a penny a share in 2014, and whose EPS would remain unchanged if fees increased to $.0049 per share. Those are the 71 firms in the table on the next page.

[1] See Volume 20, No. 9, "A PCAOB Proposal: Not Your Father's Audit Opinion," July, 2011.

[2] See Volume 22, No. 12, "Rewriting The Audit Report: The PCAOB Moves Closer," November, 2013.

[3] Those fees are the amount paid for the 2014 audit, plus the "audit-related" fees enumerated in the proxy statement. "Audit-related" fees most often are the fees paid for the review of interim financial statements and other SEC filings - not an audit, but a process that provides investor assurance and helps the auditor with their full year-end audit. Throughout the rest of this report, the term "audit fees" will refer to the audit fee plus audit-related fees.

[4] Adjusted for inflation, the 2002 audit fees were $2.55 billion, increasing by 102% - still a huge jump.

Where 2014 After-tax Audit Fees Don't Cost One Cent (Of EPS) In The S&P 500

(All figures in millions)	Audit & Related Fees Pre-tax	After-tax	Diluted Shares	A-T Fees Per Share		Audit & Related Fees After-tax	Shares	Diluted Shares	A-T Fees Per Share
Apple	$10.60	$6.89	6,122.66	***$0.001***	Delta Air Lines	$3.83	$2.49	845.00	***$0.003***
Hudson City Bancorp	1.59	1.03	500.15	***0.002***	Fifth Third Bancorp	4.95	3.22	842.97	***0.004***
Fastenal	0.81	0.53	297.31	***0.002***	Carnival	5.30	3.45	778.00	***0.004***
Altria Group	6.80	4.42	1,978.00	***0.002***	Price (T. Rowe) *	1.82	1.18	267.40	***0.004***
Gilead Sciences	5.61	3.65	1,647.00	***0.002***	Southwestern Energy	2.32	1.51	352.41	***0.004***
Host Hotels & Resorts	2.52	1.64	786.80	***0.002***	Walgreens Boots Alliance	5.73	3.72	965.20	***0.004***
Kimco Realty	1.45	0.94	411.04	***0.002***	Wal-Mart Stores	19.28	12.53	3,243.00	***0.004***
Home Depot	5.17	3.36	1,346.00	***0.002***	Cerner	2.28	1.48	350.39	***0.004***
Lowe's Companies	3.30	2.15	990.00	***0.002***	Express Scripts	4.38	2.85	759.10	***0.004***
Ross Stores	1.50	0.98	418.08	***0.002***	AbbVie *	10.20	6.63	1,610.00	***0.004***
Intel	18.76	12.19	5,056.00	***0.002***	Pfizer	37.22	24.19	6,424.00	***0.004***
Linear Technology	0.93	0.60	242.55	***0.002***	Vertex	1.54	1.00	235.31	***0.004***
Facebook	6.21	4.04	2,664.00	***0.002***	Crown Castle	1.93	1.25	333.27	***0.004***
Paychex	1.09	0.71	366.10	***0.002***	HCP	3.17	2.06	458.80	***0.004***
Visa	7.75	5.04	2,524.00	***0.002***	Public Storage	1.03	0.67	173.14	***0.004***
CSX	2.93	1.90	1,002.00	***0.002***	Realty Income	1.48	0.96	218.77	***0.004***
Southwest Airlines	2.16	1.40	696.00	***0.002***	Dollar General	2.10	1.37	305.68	***0.004***
Union Pacific	3.08	2.00	901.10	***0.002***	Kohl's	1.27	0.83	204.00	***0.004***
Huntington Bancshares	3.41	2.22	833.08	***0.003***	Tractor Supply	0.91	0.59	139.43	***0.004***
Regions Financial	6.67	4.34	1,387.00	***0.003***	Altera	1.83	1.19	311.90	***0.004***
D.R. Horton	1.65	1.07	366.60	***0.003***	Broadcom	3.92	2.55	601.00	***0.004***
PulteGroup	1.84	1.20	374.10	***0.003***	Cognizant Technology Solutions	3.46	2.25	612.49	***0.004***
Starbucks	5.93	3.85	1,526.20	***0.003***	MasterCard	8.09	5.26	1,169.00	***0.004***
Cabot Oil & Gas	1.64	1.07	417.60	***0.003***	Microsoft *	46.19	30.02	8,399.00	***0.004***
EOG Resources	2.76	1.79	548.54	***0.003***	Yahoo!	6.10	3.97	1,004.11	***0.004***
ONEOK	0.91	0.59	210.43	***0.003***	Qualcomm	10.26	6.67	1,714.00	***0.004***
Whole Foods Market	1.60	1.04	370.50	***0.003***	Republic Services	2.68	1.74	358.10	***0.005***
Progressive	2.42	1.57	594.80	***0.003***	Schwab (Charles)	9.90	6.44	1,315.00	***0.005***
Equity Residential	1.69	1.10	377.73	***0.003***	Hormel Foods	1.95	1.27	270.22	***0.005***
General Growth Property	3.76	2.44	944.72	***0.003***	Monster Beverage	1.30	0.85	174.29	***0.005***
Applied Materials	5.69	3.70	1,231.00	***0.003***	Medtronic	7.07	4.60	1,013.60	***0.005***
Oracle	24.36	15.83	4,604.00	***0.003***	Bristol-Myers Squibb	11.77	7.65	1,670.00	***0.005***
Cisco Systems	23.60	15.34	5281.00	***0.003***	Celgene	6.22	4.04	836.00	***0.005***
EMC	9.33	6.06	2059.00	***0.003***	Bed Bath & Beyond	1.30	0.85	188.88	***0.005***
AT&T	27.70	18.01	5221.00	***0.003***	NVIDIA	4.16	2.70	563.07	***0.005***
Frontier Communications	4.72	3.07	998.16	***0.003***					

***R.G. Associates, Inc. holding. See note on back page.** *Source, all tables this page: Fees - Audit Analytics, company proxy filings; shares – S&P Research Insight database.*

That's not a recommendation for auditors to raise their fees. It's a counter to the "it costs too much to change things" argument that companies invariably recite whenever a proposal to improve audit information is floated. It isn't just companies rejecting change: auditors have not embraced the prospect of adding more value to their reports in the past, as well. That brief table provides an open question to them: are they really willing to leave $2.4 billion per year on the table? Is it really that unprofitable to provide some more information or assurance to investors?

Maybe profitability has nothing to do with it. The table below shows an amazing degree of concentration of the firms within specific industries in the S&P 500, for **PwC** and **Ernst & Young** in particular. The green shaded cells indicate a firm's share of 30% or more of the total auditing and audit-related fees for a particular industry.

Industry View, 2014: Auditors & Fees In S&P 500

	PwC			E&Y			Deloitte			KPMG			BDO			Grand Total		
($ in millions)	Firms	Fees	% Fees	Firms	Fees	% Fees	Firms	Fees	% Fees	Firms	Fees	% Fees	Firms	Fees	% Fees	Firms	Fees	% Fees
Automobiles & Components	4	$94	60%	2	$19	12%	1	$43	28%			0%			0.0%	**7**	**$156**	**3%**
Banks	5	211	52%	6	47	12%	2	8	2%	4	$138	34%			0.0%	**17**	**404**	**8%**
Capital Goods	14	222	36%	12	130	21%	11	125	20%	5	147	24%			0.0%	**42**	**624**	**12%**
Commercial & Professional Services	3	14	24%	6	26	42%	2	21	34%			0%			0.0%	**11**	**61**	**1%**
Consumer Durables & Apparel	7	37	35%	7	40	38%	3	11	10%	3	18	17%			0.0%	**20**	**105**	**2%**
Consumer Services	2	8	12%	5	29	44%	3	18	27%	2	11	17%			0.0%	**12**	**66**	**1%**
Diversified Financials	8	139	35%	6	75	19%	6	134	34%	5	49	12%			0.0%	**25**	**396**	**8%**
Energy	12	123	38%	13	97	30%	6	39	12%	10	63	20%			0.0%	**41**	**323**	**6%**
Food & Staples Retailing	1	6	10%	4	37	68%	1	6	11%	1	6	11%			0.0%	**7**	**54**	**1%**
Food Beverage & Tobacco	10	83	38%	7	73	34%	3	9	4%	5	53	24%			0.0%	**25**	**217**	**4%**
Health Care Equipment & Services	12	73	29%	11	91	36%	3	50	20%	4	29	11%	1	$7	2.6%	**31**	**249**	**5%**
Household & Personal Products	1	11	14%	1	5	6%	2	56	71%	1	7	8%			0.0%	**5**	**79**	**2%**
Insurance	6	187	44%	5	55	13%	7	156	37%	3	27	6%			0.0%	**21**	**424**	**8%**
Materials	12	116	45%	5	38	15%	4	65	25%	7	42	16%			0.0%	**28**	**261**	**5%**
Media	5	81	39%	5	66	32%	3	31	15%	2	27	13%			0.0%	**15**	**206**	**4%**
Pharma, Biotech & Life Sciences	11	172	57%	7	55	18%	5	34	11%	2	43	14%			0.0%	**25**	**305**	**6%**
Real Estate	4	13	13%	8	23	23%	5	31	32%	8	32	33%			0.0%	**25**	**100**	**2%**
Retailing	2	11	9%	12	53	45%	9	34	28%	7	20	17%			0.0%	**30**	**118**	**2%**
Semiconductors & Equipment	6	29	33%	7	45	52%			0%	4	13	15%			0.0%	**17**	**87**	**2%**
Software & Services	9	131	37%	10	79	22%	5	89	25%	8	54	15%			0.0%	**32**	**354**	**7%**
Technology Hardware & Equipt.	5	56	31%	6	79	44%	3	28	16%	3	16	9%			0.0%	**17**	**178**	**3%**
Telecommunication Services			0%	2	64	76%			0%	3	21	24%			0.0%	**5**	**85**	**2%**
Transportation	1	5	7%	6	33	51%	3	19	30%	3	8	12%			0.0%	**13**	**64**	**1%**
Utilities	11	73	31%	2	26	11%	15	119	51%	1	14	6%			0.0%	**29**	**231**	**4%**
Grand Total	**151**	**$1,895**	**37%**	**155**	**$1,284**	**25%**	**102**	**$1,125**	**22%**	**91**	**$838**	**16%**	**1**	**7**	**0.1%**	**500**	**$5,148**	**100%**

Raising their fees might rock the boat too much: it's no secret that auditing firms own a legal monopoly, granted by the securities acts, and that monopoly only strengthened after the demise of Arthur Andersen. (Actually, it was strengthening before then, when the Big Eight accounting firms morphed into the Big Five a couple decades ago.) If they were to raise fees significantly, even if it was due to increased value given to investors, the optics might be enough to attract the attention of political types who would "do something" about monopoly pricing. A monopoly granted by law can be modified by law, too.

If companies aren't self-immolating like they did fifteen years ago, why should investors be concerned? Investors are a twitchy bunch; they like to sling around numbers to make comparisons, and then act - oftentimes, more than they should. They fixate on a couple of figures, however, that have to do with operating performance, valuation, or both, and the information provided to them about auditing tells them little about those areas. Yet, if they looked at the meager information provided already, they might have questions about how audits are done - and they would be interested in getting some indicators of audit quality. We've seen that audit fees have gone up dramatically since 2002, that they could increase more without EPS consequence, and that the Big Four firms have their particular industries sewed up, at least in the S&P 500. Now, let's look at some actual 2014 audit fees (including audit-related fees) for some companies to see if they make sense based on the information provided - or if more context is needed, which would make the proposals relevant to investors.

Let's start with a pair of companies with similar audit fees. Consider the following 2014 data for two transportation firms in the S&P 500, **J.B. Hunt Transport Services** and **C.H. Robinson Worldwide**:

($ in millions)	Audit & Related Fees	Auditor	Total Assets	Total Liabilities	Revenues
JB Hunt Transport Services	$1.32	E&Y	$3,397.12	$2,192.59	$6,165.44
CH Robinson Worldwide	1.52	Deloitte	3,214.34	2,167.32	13,470.07

Sources, all following tables: fees, Audit Analytics; all other info from Research Insight Database.

You might wonder if boards do a reality-check on audit fees against peers, along the lines of what they do with compensation packages. This pair looks like they've been checked against each other.

They're both S&P 500 transportation companies; their total assets and total liabilities are close to each other's size. Even their market caps (about $9.5 billion) and names are similar. Revenues, however, are quite different. Poke through the balance sheet just a little, and you'll see other differences: about 27% of J.B. Hunt's assets are tied up in net property, plant and equipment, while less than 2% of C.H. Robinson's assets are in the same category. C.H. Robinson has almost 2 ½ times the accounts receivable of J.B. Hunt, and more than twice the revenues. The risks of misstating accounts receivable versus the risks of misstating property, plant and equipment are quite different and the auditing procedures would be tailored to take those risks into account in planning the audits. In sum, C.H. Robinson is a logistics company, while J.B. Hunt is a genuine trucker.

<u>The similarity of audit fees is likely due more to coincidence than due to similarities of the companies</u>. So why are their audit fees so similar? Without knowing more about the audit work done, investors have no idea why the two superficially similar companies have such a strong resemblance when it comes to audit fees. It doesn't mean the work on either was inadequate, nor does it mean the work was adequate.

($ in millions)	Audit & Related Fees	Auditor	Total Assets	Total Liabilities	Revenues
Apple	$10.60	E&Y	$231,839.00	$120,292.00	$182,795.00
Microsoft*	46.19	Deloitte	172,384.00	82,600.00	86,451.00

***R.G. Associates, Inc. holding. See note on back page.**

*Consider another pair of companies: **Apple** and **Microsoft**. Sure, they're different: one is the dominant computer-based consumer products company on the entire planet, and the other one used to be the dominant software company on the entire planet.*

Their businesses are certainly different, but not without similarities: one is more hardware-oriented and consumer-oriented than the other, yet software is important to both and they are both categorized as information technology firms in the S&P 500. That said, maybe it should cost much more for one to be audited than the other - but why does it cost nearly 4 ½ times more to audit the *smaller* one of the two? Is Microsoft that much more complex to audit than Apple? Are Apple's financial reporting controls so superior to Microsoft's that the auditors have less work to do? Again, without some color provided about the quality of the audits, investors can only look at a few numbers - and scratch their heads.

($ in millions)	Audit & Related Fees	Auditor	Total Assets	Total Liabilities	Revenues
AT&T	$27.70	E&Y	$292,829.00	$205,905.00	$132,447.00
Verizon	36.30	E&Y	232,708.00	219,032.00	127,079.00

*Here's another pairing that puzzles: **AT&T** and **Verizon**. Definitely the same business, roughly the same dimensions. They were once the same company, <u>and still share the same auditor</u>. Yet the lesser of the two - Verizon - costs more to audit than the other.*

Why? Again, no intuitive answer satisfies - and there's no additional information that makes it clearer.

($ in millions)	Audit & Related Fees	Auditor	Total Assets	Total Liabilities	Revenues
Citigroup	$92.00	KPMG	$1,842,530.00	$1,630,485.00	$90,572.00
Wells Fargo	41.93	KPMG	1,687,155.00	1,501,893.00	88,372.00

*In the world of banking, it's slightly more intuitive when you look at the comparison of **Citigroup** to **Wells Fargo**. In regard to assets, liabilities and revenues, the two giants are nearly the same. (Wells' market cap exceeds Citigroup's.)*

Citigroup is a far more global enterprise than Wells Fargo - but should it cost $50 million more because of geographic dispersion? And if it really is the reason for the same auditor to cost that much more, why shouldn't investors know more about the reasons? Does the Citigroup board know that the same auditing firm costs so much less at a comparably sized bank - and if they know, do they care enough to know the reasons why?

($ in millions)	Audit & Related Fees	Auditor	Total Assets	Total Liabilities	Revenues
Delta Air Lines	$3.83	E&Y	$54,121.00	$45,308.00	$40,362.00
American Airlines Group	7.42	E&Y	43,771.00	41,750.00	42,650.00

One last comparison: ***American Airlines Group*** *and* ***Delta Air Lines****. Roughly the same dollar amount of liabilities and revenues as Delta Air Lines, American Airlines falls quite short on assets - almost a 25% discount.*

Yet, *with the same auditor,* the American Airlines Group audit fees were nearly double the fee for the Delta Air Lines audit. Does it have to do with the recent combining of two predecessor airlines at American? Possibly - but American's audit fees *increased* each year since 2010, well before the combination of USAirways and American. In 2014, total audit fees were 110% higher than the 2010 fees. Oddly, Delta's audit fees *decreased* over the same time period, but not in each year. In 2014, the fees were 22% lower than in 2010. In short, the behavior of the audit fees over time doesn't explain any obvious inconsistencies between the two firms' audits. Maybe Delta's board simply drove a harder bargain. Maybe American Airlines' earlier trip through bankruptcy made additional auditing procedures necessary. Who knows? All that investors can work with is one number.

Investors hire agents to do their bidding: compensation contracts might not be set by investors, but they're set in motion by boards - and the investors get to see the particulars of those arrangements when they vote them in the proxy. When it comes to the auditors, they aren't treated to the same hearty level of disclosures about those agents. Every company is different, and in paired examples above, none of the companies are perfect matches for each other. Differences between companies are a fact of life: some of it due to the businesses themselves, and some due to facts and circumstances changing as the annual audit evolves. Investors would be more confident in the audit report's assurances if there was more meat on the bones. Some helpful indicators of audit quality:

- Years of experience of engagement auditors in the company's particular industry.
- Years of experience of lead engagement partner and reviewing partner on a particular engagement.
- Percentage of time spent on engagement by partner relative to annual workload.
- Percentage of time spent on engagement by managers and staff relative to their annual workload.
- Firm's turnover rate of audit personnel.
- Percentage of audit work outsourced to others.
- Percentage of audit engagement hours charged to national office resources.
- Percentage of hours on engagement performed by persons with specialized knowledge.
- Amount of firm's investment in training personnel.

Those indicators are fleshed out in greater detail in the PCAOB's new proposal on audit quality indicators, served up in the next section.

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