



September 28th, 2015

Hunter College Graduate Program
Economics Department
695 Park Avenue
New York, N.Y. 110065

Office of the Secretary, Public Company Accounting Oversight Board
1666 K Street N.W., Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 041

To Whom It May Concern,

The Advanced Auditing class (ECON 775) at Hunter College Graduate Program in New York City brings forward their collaborative and collective critique on this current topic with excitement and professionalism.

The class discussed Docket Matter No. 041 and took up the Invitation to Comment, providing some responses to questions throughout the Concept Release and criticisms of our own.

Please contact Professor Joseph A. Maffia at (212) 792-6300 if you would like to facilitate any further discussion with us.

Sincerely,

Professor Joseph A. Maffia, CPA

**Hunter College Graduate Program
Economics Department
Advanced Auditing Class
Econ 775
Fall, 2015**

PCAOB Release No. 2015-005; July 1, 2015: CONCEPT RELEASE ON AUDIT QUALITY INDICATORS

September 28, 2015

Hunter College Advanced Auditing Class

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Comments on Concept Release on Audit Quality Indicators: Notice of Roundtable

The following feedback and criticism are for consideration by the Public Company Accounting Oversight Board after reviewing and discussing the Concept Release on Audit Quality Indicators (AQI). Our comments are separated into two distinct sections: Response to PCAOB Questions and Overall Feedback to the Concept Release.

Response to PCAOB Questions

Question 1. Is increasing knowledge about, and use of, the audit quality indicators discussed in this release likely to provide insights about how to evaluate, and ultimately improve, audit quality? If so, why? If not, why not?

Increasing the knowledge of and the use of AQIs discussed in your concept release will improve firms' audit quality. The overall guideline and specific benchmarks to evaluate the AQIs will benefit both audit firms and auditors by establishing a new source of decision useful information.

Overall, AQI reporting will prove beneficial. There are, however, some hurdles that should be addressed. Some of those hurdles which will be addressed herein include the following: the impact of costs on smaller firms, the need for an AQI time reporting framework, and the possibility of making AQI reporting voluntary.

Question 2. Are the AQI project, and some number of the 28 specific indicators described below, likely to build a strong knowledge base to enhance discussions of audits among those involved in the financial reporting process or other users of AQIs?

The AQI project will build a strong body of knowledge about the audit firms to audit committee members, management, and all users of financial statements. It will provide a guideline to potential AQI users and enable them to make an appropriate decision based on the available information about the audit quality of a firm.

The way in which the AQI project will be implemented, required mandatory, or otherwise will impact firms of all sizes. Smaller firms will proportionately pay more for implementing such AQI reporting requirements. Furthermore, not all AQIs are indicative of an industry, or even a firm. Perhaps firms do not bill by the hour, in which case the first few AQIs should be calculated another way.

Question 3. Can the development of audit quality indicators, as described in this release, have unintended consequences, either positive or negative, for audit committees, audit firms, investors, or audit or other regulators? What are they? Can any negative consequences be alleviated? How?

The AQI project may benefit the market of audit quality through competitiveness. Such benefits of market competition may not be realized for audit firms with significantly less resources. While the disclosure of AQI measurements will substantially increase decision useful information, it will come at a price. That price will be felt by both audit clients in the form of higher audit service fees and by audit firms in the form of increasing costs needed to measure AQIs related to the audit. The premium in audit price will be caused once resources are spent on the measuring and reporting of AQIs. Audit firms with substantially less resources, therefore, may struggle to disclose or issue an AQI report.

As such, certain competitive results in the audit quality market may lead to an increasing merger market among smaller audit firms struggling to keep up with the demands of regulating bodies. Smaller firms usually have less staff and billable hours to work around. Adding new regulation requirements may negatively impact smaller audit firms by straining their staff and lowering their profits.

Question 4. What is the nature of the context that those using AQIs as a basis for analysis and discussion will generally require to be able to benefit from that use? Is the information required to build that context available? Is access to the necessary contextual information feasible?

The AQIs will provide a benchmark for all users of the financial statements. The users of the AQIs are extensive and include: audit committees, audit firms, investors, the PCAOB, company management, and the general public. For example, AQIs will provide auditors a standard of measure to evaluate their performances against. It will provide auditors a guideline to improve the efficiency and effectiveness of their work which will, over time, improve audit quality. The information required to build the context around AQI measurement might not be readily available. As such, this process may take extra time, increasing the cost of performing the audit to the audit firms and ultimately the audit engagement cost for the client.

Question 5. Should any indicators be omitted from the list proposed in this release? Which indicators? Why?

Although all indicators are indicative of audit quality, some AQIs are redundant. When looking at AQIs in the Audit Process section, we can see that such AQIs are analyzed via a PCAOB inspection. Such PCAOB inspection findings should be included in an AQI report to increase transparency in regards to AQI measurement.

Question 7. Which indicators are likely to be the most useful in evaluating audit quality and informing discussions of audit quality? Why? The least useful? Why?

All AQIs stated in the concept release help to evaluate audit quality and inform users of such AQI reports about audit quality. Nevertheless, in our opinion, some indicators are of more use than others. An important AQI is Staffing Leverage, as professionals with specialized skills and knowledge are necessary for an effective audit engagement team.

In our opinion the least useful AQI is the independent survey. Participants of the survey may give bias opinion about top management, for example. Participants who are also current employees may hide something critical due to lack of independence.

Question 11. Does the time lag between an audit year and the availability of information for many of the results indicators (e.g., whether a restatement has occurred) affect their value? How?

Taking restatement into consideration, the time lag between an audit year and the availability of information would affect the value the AQI report. A restatement would cause for a revaluation of the overall audit quality and cast doubt to the validity of the audit.

A required deadline of AQI reports has not been established. Knowing such deadline would better prepare audit firms in planning their time and preparing their resources in measuring AQIs.

Question 17. How should audits of different size and complexity be weighted in the calculation, analysis, and discussion of firm-level data?

Appendix A displays the calculation on how to quantify each indicator. The difference in firm size; however, needs to be taken into consideration. In order to calculate the analysis and facilitate decision useful discussion on firm-level data, a weighted metric is advisable. A firm size weighted metric should be developed specifically to individual industries. Within each industry, firms should be weighted based on their overall staff size. The smaller the staff size of an audit firm, the heavier they should be weighted within a specific Audit category, i.e. Professionals, Process, and Results. Each AQI would have a ranking of one to five. The weighting will apply to the sum of each audit category.

Question 20. Could the collection and evaluation costs of AQIs be a greater economic burden for smaller audit firms than larger audit firms? Could this burden disadvantage smaller firms in competing for audit business if perceptions of quality are driven by the indicators?

The process and evaluation of AQIs will, on a percentage of total cost basis, be more costly for smaller firms. Such calculations of AQIs are time consuming and would most likely require additional staff. Such factors will undoubtedly pose a greater economic burden on smaller audit firms, thereby decreasing their overall profits and diminish their ability to compete with larger audit firms.

Such downward pressure on profits will likely cause an increase in merger of smaller firms. Perhaps requiring a smaller set of AQIs for small audit firms is reasonable. Doing so may offer small audit firms a better chance in contributing to the competitive audit market thereby establishing an AQI market for small audit firms.

Question 30. To what extent would firm-level data be more useful, for all or some indicators, if it were broken out in industry categories?

Depending on the way the industry categories are broken out, firm-level data could be more useful. Ideally, industry categories should be broken out by the Department of Labor Standard Industrial Classification system.

On the other hand, the breakdown of AQIs in the Audit Professional tier would be beneficial across all industry categories. As many industries require specific skills and knowledge, it would be beneficial for users of the financial statements and clients requesting audit services. Such a breakdown of these AQIs would explain just how adept and readily available their audit engagement team is to tackle said industry specific audit. Such detailed information may even justify an audit firm's audit price premium, thereby creating price competition.

Question 47. In measuring experience, would overall experience (including auditing and accounting experience) in the relevant industry be the best measure? Would such a measure disadvantage smaller firms? Would a measure based on number of audits performed in a particular industry be a better indicator for smaller firms?

Including auditing and accounting experience in the relevant industry would be the best way to measure overall experience. Professionals with relevant experience in both a general and particular industry will bring a more knowledgeable and effective mind set and approach to an audit engagement. This measurement might be disadvantageous for smaller firms due to their limited resource and perhaps lack of diverse clients. A cumulative total of experience, in terms of months, should be used for each individual audit engagement team member. In this way audit firms, regardless of size, won't be penalized for rendering their services to either specific industry clients or generalized clients.

Question 51. Should training hours be computed on a per-person basis, by personnel class, or as an average by class? Should the size of the firm involved make a difference in this regard?

Training hours should be computed on a per-person basis. Displaying training hours in this way can create a marketplace for competent professionals by informing investors of the relative skill and expertise of the audit engagement team. The size of an audit firm should be taken into account at a statistical level, such as in the form of weighting averages.

Large audit firms with more resources are able to devote time solely to training, perhaps even before any field experience (general or industry specific) to their staff. Smaller audit firms may provide on the job training in addition to continuing professional education hours. Such distinctions of different forms of training should be noted when comparing any two audit firms. Ultimately, smaller audit firms should not be penalized.

Question 67. Comment is requested on each of the issues raised about this indicator. Would it be preferable to identify specific indicators related to financial reporting quality or to focus on audit firms' measures of reporting quality to measure risk? How would the latter approach control for differences among firms?

Large audit firms would be more effective in identifying a small set of potential metrics that could provide the audit committee with a broader understanding of the effectiveness of engagement teams and their audit quality. Potential AQI indicators for large audit firms could be divided into the following four categories:

- a. Firm leadership at the top- Organizational leaders should be responsible for audit quality, independence, control and standards.
- b. Engagement team knowledge, experience, and workload- Professionals should be prepared to perform effectively on any audit engagement. In order to do so, proper preparation needs to be instilled; such as allocating resources and seasoned key members to significant risk areas. Audit firm training requirements and trends in engagement hours are also important to keep note of.
- c. Transparency in reporting and communication- Auditor reports should be submitted accurately in a timely fashion and all auditor communication should be effective and appropriately targeted.
- d. Monitoring of internal controls- Reviewing and improving upon past internal quality review findings and PCAOB inspection findings should be a top priority across all audit firms.

The point of the above categories is to have a manageable set of standards and rules for large audit firms to follow in measuring their AQIs. If there are many AQI indicators and rules, it would be time consuming and very expensive for firms to properly implement; rendering them less effective in their original purpose of AQI measurement. Smaller audit firms, perhaps in terms of total revenues, should have set of indicators that are tailored to their size. For example, an auditor of a smaller, less complex company usually has fewer difficult auditing or financial reporting issues to report on. This lack of complexity in smaller audits would reasonably eliminate the need to measure several Financial Statement related AQIs.

Question 69. Who should administer the survey described in this indicator? What steps would be necessary to assure that the results of anonymous surveys were comparable? Would the same set of questions be necessary? Would the same individual or organization have to administer each of the surveys?

Audit engagement team members in audit firms could appoint an outside or inside independent specialist to conduct anonymous, independent surveys. The set of questions would vary depending on the size of the audited firm. Audit committee members of larger firms should be required to answer more questions concerning financial related areas as appose to those of smaller firms. It should be acceptable for the same independent surveyor to conduct a similar survey for three years, with the exception of surveying different audit committee members.

Question 70. How often would a survey of this type have to be administered to retain its validity?

A survey of this type would have to be administered annually, at a minimum, for all companies. Different financial scenarios present themselves as frequently, if not more so. Conducting such surveys on a more frequent basis may prove ineffective for smaller audit firms as a rotation of respondents is recommended.

Overall Feedback to the Concept Release

1. AQI #'s 13 and 26 fall prey to subjectivity. Although administered through anonymity and crafted with independent-drafted questions, the survey itself may succumb to subjectivity through the person taking the survey via interpretation. Unless extremely specific in nature, surveys may not be interpreted in the way in which intended. Staying cautious and keeping to quantitative and true or false type questions will prove beneficial. In this way, surveys have a less chance of being interpreted differently than its original meaning.
2. A framework for disclosing AQIs is lacking. In addition, neither does a standard setting body exist to regulate the implementation of AQI. Is there a current standard setting body which could oversee the accurate and fair

calculation of such audit firms' AQIs? How often would AQI calculations come under audit? When will a standard setting body be formed? What is PCAOB's time-frame of completion for AQI reporting?

Having a standard setting body for AQI's would ensure the validity of all AQI disclosures. Users of financial statements will value and trust AQI disclosures more if known to be checked against a set of standards. Any AQI which users of financial statements deem less useful than others or don't value should be reconsidered or removed.

Having AQI's under audit every three years would suffice. A three year time frame will enable AQI measurement to hold its relevance. Having a three year time frame can also alleviate any unnecessary audit-work overload through spreading the total number of firms' under AQI audit.

If a current standard setting body can't accept the workload of overseeing AQI measurement and disclosures, than a new one should be formed. This standard setting body would exist to ensure that all AQIs were measured accurately and truthfully. Having AQI disclosures come under audit every three years will ensure the reasonable spread of AQI measurement audit work.

In terms of creating a time-frame for completion, a few months after the completion of an audit seems reasonable. If there is a lot of pushback from making AQI disclosures mandatory, perhaps a voluntary AQI reporting mechanism is the answer. The burden of costs arising from AQI implementation wouldn't be felt and those opting to disclose their AQIs will have a competitive advantage.

3. This concept release steps forward in the right direction in terms of developing key indicators of audit quality, as the Advisory Committee had promoted in the past. With progress comes caution. Attestation services must evolve from an outdated concept of credence goods (goods or services of minimal value) to those of value which add decision useful information for investors, creditors, management, and all interested parties.

Creating an oversight or regulating body specifically for the calculation and reporting of AQIs will enhance validity in the AQI report and may add decision useful information to all financial statement readers. AQI reporting, however, should become one universal AQI concept.

There are currently several AQI reporting requirements with differences among the IASB, AICPA, and now the PCAOB. The existence of more than one AQI reporting standard poses unnecessary costs and risks of noncompliance to current audit firms. If current standard setting bodies want audit quality to increase, than any obstacles preventing audit firms from doing so should be removed. Such encouragement of AQI disclosures will benefit overall audit quality and add value to audits, distancing them from a credence good towards one of decision usefulness.

4. Not all audit firms' bill at hourly rates. As such, the first three AQIs may not apply to such firms. If an audit firm does not bill hourly, how should they measure the first three AQIs? Instead of using chargeable hours which in this case can't be done, using the amount of hours worked on a specific client, if measured in an accurate manner, will suffice.
5. AQI #22 currently has no calculation requirement and requires study. Using a rubric guideline may prove useful in measuring this AQI. A gradual rating rubric consisting of columnar headings with the number of occurrences of fraud or misconduct should be used. If the number of occurrences is higher for fraud or misconduct within a specific time frame, than the audit firm receives a lower "grade". In this way audit firms' instances of fraud and financial reporting misconduct can be comparable.