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

**PCAOB Release No. 2015-005: *Concept Release on Audit Quality Indicators* (July 1, 2015)**

This letter provides GAO's response to the Public Company Accounting Oversight Board's (PCAOB) Release 2015-005, *Concept Release on Audit Quality Indicators*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provide a framework for conducting high-quality audits of governments and other entities expending government funds. Depending on how the concepts illustrated in this release are implemented, an audit quality indicator (AQI) project could set a precedent for how audit quality is assessed well beyond the audit environment under the PCAOB's purview. AQI-based auditor evaluations could become an industry-wide expectation for auditors of many types of organizations, including those subject to GAGAS audits.

We support audit quality improvement and promoting confidence in audit results. We believe the AQI project may provide value by showing trends across the audit profession. However, audit quality depends on a variety of complex factors, not all of which will be considered in this project. As discussed in our responses to the questions below, we have concerns about the project because of the limitations inherent in relying on quantitative data to describe an aspect of the profession as broad and variable as audit quality.

Our responses focus on the overview questions only. While we reviewed the specific AQIs and related questions provided in the release, we believe that it is important to consider responses to the concept release and resolve the questions raised by the overview before addressing specific AQIs.

**Responses to Overview Questions Included in the Concept Release**

***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?*

We agree that commencing a dialogue on AQIs elevates audit quality's profile in the audit community. AQIs may be used by firms to assist in monitoring and improving audit quality and may be communicated to audit committees, along with relevant qualitative and other information, to help them assess audit quality. However, it may be difficult to determine whether use of AQIs specifically contributes to overall audit quality improvement. The PCAOB should consider how it will measure the project's success. In addition, we suggest that the PCAOB analyze the costs and benefits of gathering and processing AQI-related data and the extent to which the proposed AQIs are reliable indicators of audit quality before significant further resources are committed. For example, an analysis of sampled audit documentation from a population that is not limited to high-risk or problematic audits could provide information on whether individual proposed AQIs correlate as closely as envisioned with conditions they were

designed to identify. If the PCAOB determines that an AQI project would be cost-effective, subsequent monitoring of each AQI's value and continuous evaluation of the project going forward will be critical to its long-term success. This evaluation should carefully consider the potential uses, and misuses, of AQI data by the public.

The concept release notes several recent initiatives by organizations other than the PCAOB to address audit quality. We suggest that the PCAOB coordinate to the extent practical with those organizations on projects with similar objectives. Such coordination would allow any participating organization to leverage the individual projects' benefits and would help to minimize inconsistencies in any resulting guidance.

**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?*

We agree with the PCAOB's assessment that the AQIs could be a helpful starting point for discussing audit challenges and potential solutions if steps are taken to address the limitations described in the release. One potential use of AQIs would be to compile and consolidate the data in order to discern trends by industry or in general. For example, the metric of years of experience in a particular industry could be aggregated to determine whether there is a correlation between years of experience in that industry and audit successes or failures. Such an analysis could indicate whether newer industries experience higher rates of audit failure than more-established industries and provide a basis for mitigating any deficiencies identified.

For this or any other data-gathering project, the PCAOB should consider the data reliability of the compiled information. For example, data could be skewed by inaccurate responses on hours or fees. Other questions regarding the information collected include

- who should enter the data,
- how accuracy should be verified, and
- who should have access to the data.

The PCAOB also should consider the risk that some of the indicators could be manipulated in order to improve a firm's metrics.

**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?*

We believe that the development of AQIs could have unintended consequences. For example, auditors may at times focus on meeting AQI expectations rather than audit objectives. We are also concerned that public reporting of AQI information could lead to inappropriate conclusions by users who do not have access to the qualitative and other information necessary to place AQIs in an appropriate context. As the concept release points out, AQIs have inherent limitations and need to be put into proper context with qualitative information in order to be beneficial. On the other hand, we believe that audit committees should be in a position to obtain, consider, and analyze quantitative, qualitative, and other information that is deemed relevant for assessing audit quality in the selection or retention of an auditor.

**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?*

We agree that audit quality evaluations need to incorporate qualitative factors, and the quantitative factors listed in the concept release alone would not give an accurate account of the quality of an audit organization's work. Many of the factors that could affect AQI data depend on circumstances outside the firm's control, including the audited entity's industry and the environment in which the audited entity operates. Consequently, there may be many reasons unrelated to audit quality that could result in significant discrepancies between a firm's AQIs and an established norm.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov) or Eric Holbrook, Assistant Director, at (202) 512-5232 or [holbrooke@gao.gov](mailto:holbrooke@gao.gov).

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance