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

Via email submission: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Dear Ms. Brown:

I serve on the following Audit Committees:

- Joint Audit Committee Chair for the American Funds family of mutual funds advised by Capital Research and Management Company;
- Audit Committee Chair, Edison International (NYSE:EIX);
- Audit Committee Member, Transocean Ltd. (NYSE:RIG and SIX:RIGN) and;
- Audit Committee Chair, Forest Lawn Memorial Parks Association, a not-for-profit.

I commend the Board for proposing a thoughtful and detailed approach to assessing audit quality. My comments pertaining to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Concept Release on Audit Quality Indicators, PCAOB Release No. 2015-005 Rulemaking Docket Matter No. 041* ("Release") contained in this letter are mine alone, from the perspective of an audit committee member, and do not represent those of my fellow board members nor those of management of the above named companies.

The Board's Release on Audit Quality Indicators ("AQI" or "indicators") is an appropriate and timely encouragement to audit committees to engage in a disciplined assessment of the quality of the audit received from the independent accountants. The Release suggests a structured framework from which users can assess audit quality using quantitative indicators and recognizes the importance of context, but unfortunately does not suggest a review and assessment of qualitative factors. Context and personal interaction with the audit team allows the audit committee to assess qualitative factors. As a result, a robust audit quality assessment must necessarily include a balance of both quantitative and qualitative indicators.

Each audit committee differs as a result of its members' experience, perspectives, the industry, company size and complexity and the like. Each audit committee on which I serve annually discusses the quality of the audit received from the independent accountants. As Chair and in addition to the annual assessment, I participated in two

of the aforementioned audit committees' prototype assessments of audit quality indicators – one in conjunction with the auditor and the other in conjunction with management and the auditors. Several indicators were the same for both companies and are included in the Release. But there were also differences as a result of the fact that some indicators were either more or less relevant for one company and not the other. For example, overtime hours are less relevant for the investment management industry because funds' have different fiscal year ends, distributing audit work evenly throughout the year. Importantly, the assessments also included qualitative factors that could only be obtained through the many interactions with the auditors together with context from which to make those assessments. Examples included how the audit engagement partner responded to challenging questions from the Audit Committee or how the partner demonstrated that professional skepticism was applied.

The Board recognizes that “The choice of indicators is not fixed. The effort is new, and by their very nature audit quality indicators must be capable of change over time to reflect advances in learning and changes in the way audits are conducted<sup>1</sup>.” The AQI project is a good foundational tool but its application should be flexible and voluntary, allowing audit committees, management and the auditors to determine, over time, the quantitative and qualitative factors most relevant and meaningful to them. For example, some quantitative factors might be included every year in order to develop a trend whilst other factors may be included in some years but not others, depending upon the situation, such as assessing the partner rotation transition. The Release's 28 indicators are too prescriptive. Instead, the Board might consider a more principle-based approach, which would allow Audit Committees to design the process and determine the quantitative and qualitative indicators best suited to meet their needs, some of which may include indicators suggested by the Release.

The Release states “it may still be possible to generate questions and trigger discussions that strengthen audit planning and execution, and, equally important, create an environment conducive to sustained audit quality and its recognition<sup>2</sup>”. In order to achieve the quality discussions contemplated by this statement, Audit Committees must be free to question, challenge and discuss without fear of public disclosure. I oppose publicly disclosing the results of specific audit quality indicators at the engagement level because it would chill the discussion, reduce the process to box ticking, change the focus of the audit to litigation avoidance from financial auditing and undermine the quality of an Audit Committee's engagement and oversight. Moreover, readers of the public disclosure would not have the benefit of context resulting in misunderstandings. I would be in favor of a statement in the proxy statement by the Audit Committee that it considered and received satisfactory audit quality indicators which led to the ratification recommendation to appoint the auditors.

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<sup>1</sup> PCAOB Release No. 2015-005 Page 14

<sup>2</sup> PCAOB Release No. 2015-005 Page 8

Assessment of audit quality should be at both the firm and engagement levels, the latter being more meaningful to me as an audit committee member. Audit committees intend to hire a high quality audit team, led by the audit engagement partner. That team necessarily includes the entire firm, depth of their industry audit and tax practice, special skills and subject matter experts. Reports on audit quality and control procedures published by the Big Four firms have improved over the years but the information is inconsistent and terms vary in definition and calculation between and amongst the firms, making comparisons at the firm level difficult. Feedback from users and stakeholders should help to develop firm level audit quality measures consistent between and amongst the independent accountants.

The Release is a first step towards creating a structured tool that will help Audit Committees assess audit quality. The success of this tool in achieving higher quality audits will depend upon the cooperation and consistent commitment of audit committees, management and independent accounting firms. I encourage the Board to support the development of a framework of quantitative and qualitative indicators at both the firm and engagement levels using a principle-based approach, allowing the participants in the process to experiment and learn what is best suited for their particular audit committee. A mandated, prescriptive list of quantitative indicators will not achieve the objective of higher quality audits, in fact, quite the opposite, because the process would become an exercise in checking boxes.

Thank you for considering my comment on the *Concept Release on Audit Quality Indicators*, PCAOB Release No. 2015-005 Rulemaking Docket Matter No. 041. Please contact me at [vanessachang@me.com](mailto:vanessachang@me.com) or 213-784-1033 with any questions or further discussion.

Very truly yours,



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