



ILLINOIS CPA SOCIETY

September 29, 2015

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the PCAOB’s Concept Release on Audit Quality Indicators (Docket Matter No. 41), dated July 1, 2015. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

As a Committee, we agree with efforts made by the PCAOB and others in the profession to increase audit quality. This concept paper suggests 28 potential indicators of audit quality “whose consistent use may enhance dialogue about and understanding of audits and ways to evaluate their quality; and to explore how and by whom the portfolio of indicators can best be used.” Our comment letter focuses our thoughts around the prior statement. We will not attempt to answer all 73 questions; instead our comments mainly address one through four. As a broad concept, we strongly believe that many of the suggested AQIs, and probably any set of AQIs, should not be reported because doing so – without providing the unique factors that impact every audit differently, could lead to gross misinterpretation of the AQIs and, in turn, inappropriate reactions by any number of constituencies. For example, even audit committees, who would generally appreciate how auditors react to differing aspects of the company’s they audit, would not be able to accurately, or even directionally, draw any conclusions about a particular audit or audit firm based on the raw AQIs without also having a full description of the unique factors that may have driven those AQI results.

Question 1:

We agree with the goal of the AQI concept paper to improve the ability of persons to evaluate the quality of audits in which they are involved and rely on to enhance discussions. Ultimately, the more the users of audits understand what an audit is/is not and the mechanics of completing an audit, their understanding of the financial statements, disclosures and audit report will also increase. We think before users can evaluate an audit’s quality they need a better understanding of what an audit is. We do not think the indicators will help users understand the audit and could continue their misconceptions. The indicators as written suggest that audits are very procedural, consistent, and even scientific. We, as audit practitioners, disagree with that assumption. An audit is much more art than science. Attempting to use only quantitative measures to judge quality, a subjective value, within a dynamic process will produce incongruent assessments.

Question 2:

In our professional practice, we notice an expectation gap between user understanding of an audit and an audit in actuality. In our interaction with market participants, including audit committees, lawyers, bankers, and investors, we notice that they have misconceptions about what an audit provides. We applaud the PCAOB’s outreach efforts to these constituencies, but recognize that these efforts often involve those who are already educated within the process.

Question 3:



ILLINOIS CPA SOCIETY

We think that providing market participants, who are unclear about the real purpose of an audit, with metrics that attempt to grade audit quality may increase their confusion instead of eliminate the expectation gap encountered, which is an unintended consequence.

The audit quality indicators may have other unintended consequences. We are concerned that releasing metrics touted as indicative of audit quality will drive auditors to strive (and even contrive) their practice to meet the metric. This is particularly dangerous as it could drive behavior to match the metric regardless of whether or not the behavior is indicative of quality. It could reduce audit quality rather than increase it. Rather than release the indicators first, we think we need to understand how they will be used.

We can illustrate using indicator number 28 as an example. If auditors are measured based on the number of cases in court against the firm, auditors will attempt to settle each and every case before it is brought to court. Settling every case to reduce the quality indicator means they may settle cases regardless of whether the firm is at fault or if the case has any base at all. To a certain extent, a metric like that is more indicative of how risky the entities audited are, not how well the audit is conducted. Lawsuits against firms tend to happen when the audit client fails, regardless of the audit opinion issued or the quality of the audit itself. This is also an example of a metric that will lead someone unfamiliar with audits to draw incorrect conclusions.

Another example are the first five availability indicators (staffing leverage, partner workload, manager and staff workload, technical accounting and auditing resources, persons with specialized skill and knowledge). The indicators make a direct correlation between partner audit hours and the quality of the audit. We agree that audits with greater partner involvement tend to have more thorough planning and more effective execution. But, we cannot assume that more partner hours is always indicative of higher quality. A partner may actively dedicate time at the beginning to organize the team effectively versus a partner who spends much more time at the later part of the audit to compensate for a lack of involvement during the planning and risk assessment phases of the audit. The AQI incorrectly favors the partner that poorly spent time on the engagement.

#### Question 4:

As noted above, our Committee is comprised of professionals functioning in organizations that range from the largest multinationals to sole proprietorships. Operating in this wide variety provides our Committee with a unique perspective on the audit quality indicator project. We are particularly concerned that the information necessary to use audit quality indicators for comparative purposes is unattainable. The first is that we've learned each firm is unique and provides the auditee with a personalized level of background and experience. We fear that even if done across firms of similar size that comparing the metrics can lead to false positives. One firm may have lower percentages of partner time on the engagement, but have much more experienced senior manager time devoted to the engagement. If a user reviews just the partner time metric, they are incorrectly assessing a firm less favorably.

Page 7 of the release states: "The indicators are meant to be a tool. As such, they have inherent limitations that have to be recognized if they are to be effective. They are not algorithms, benchmarks, or safe harbors against enforcement of other claims, and they do not lead directly to formulas for determining the quality of a particular audit or whether and auditor has met its obligations. The reason AQIs cannot be used in any of these ways is that analysis of AQI data almost always requires a context." We agree wholeheartedly with this statement. We are concerned that even if the PCAOB has the best of intentions, that users will incorrectly synthesize the data and view the AQIs individually without any other contextual information.

Additionally, the audit quality indicators as written do not allow for variation in the auditee. Even if two entities manufacture the same surgical devices with one billion dollars in revenue annually, their audits could be vastly different,



ILLINOIS CPA SOCIETY

resulting in completely different metrics. Entity A could operate in one facility, located directly behind the corporate headquarters using materials sourced from within the US, using a highly sophisticated ERP system in a highly centralized structure with a strong internal control environment. Entity B manufactures the exact same surgical equipment, but does so from fifteen different facilities located throughout the world, using three different accounting systems, one of which was recently installed the others of which are very old without strong ITGCs, all in a highly decentralized control environment. The audits of the two entities will be, and correctly should be, vastly different. Indicators one through five, 11, 12, and 15 will not be comparable. Providing users with a perspective/gauge of what the indicators should be without understanding the context of the auditee or what an audit is will lead them to draw incorrect conclusions.

To use the PCAOB's own words from the qualifier in their inspection reports, we "caution against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice." We do not think the baseline audit quality indicators are indicative of what the indicator should be for all of the entities of a similar size because of the wide differences between auditees and audit firms.

Question 16:

The question of comparability is crucial to our Committee. We are concerned that comparing large and small firms and within industries themselves with the AQIs can lead to an incorrect deduction. As described in the Appendix to this letter, our committee is comprised of professionals operating in a wide variety of environments, serving a wide variety of clients. Comparing our firms using basic hour metrics is meaningless given how the firms vary. We strongly oppose introducing metrics to the profession that could potentially tarnish a firm simply because one its metrics does not fall within a standard range. This sets a potentially dangerous precedent where public accounting firms are dissuaded from operating outside of the norm even if their quality could be improved by doing so.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

**Elizabeth J. Sloan, CPA**

Chair, Audit and Assurance Services Committee

**James R. Javorcic, CPA**

Vice Chair, Audit and Assurance Services Committee



ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2015 – 2016

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**National:**

Scott Cosentine, CPA	Ashland Partners & Company LLP
Eileen M. Felson, CPA	PricewaterhouseCoopers LLP
James J. Gerace, CPA	BDO USA, LLP
Michael Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
John Offenbacher, CPA	Ernst & Young LLP
Matthew Rotta, CPA	McGladrey LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

**Regional:**

Jennifer E. Deloy, CPA	Frost, Rittenberg & Rothblatt, P.C.
Barbara F. Dennison, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

**Local:**

Matthew D. Cekander, CPA	Doehring, Winders & Co. LLP
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Trimarco Radencich, LLC
Jodi Seelye, CPA	Mueller & Company LLP
Joseph Skibinski, CPA	Trimarco Radencich, LLC
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

**Industry:**

Matthew King, CPA	Baxter International Inc.
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**Educators:**

David H. Sinason, CPA	Northern Illinois University
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**Staff Representative:**

Ryan S. Murnick, CPA	Illinois CPA Society
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