



The Association of  
Accountants and  
Financial Professionals  
in Business

September 28, 2015

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

Re: Rulemaking Docket No. 041, PCAOB Release No. 2015-005, *Concept Release on Audit Quality Indicators*

Dear Board Members:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the PCAOB's Release No. 2015-005, *Concept Release on Audit Quality Indicators* (Release).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and users. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Information on the FRC can be found at [www.imanet.org](http://www.imanet.org) and in the Advocacy Activity section under the About IMA tab.

## **Overview**

The FRC agrees with the PCAOB objective of identifying audit quality indicators (AQIs) to evaluate and understand audit quality. We support the effort to develop a portfolio of indicators that is well understood and that will provide a basis for comparison across providers of audit services. However, we are concerned that a regulatory definition of AQIs and mandated disclosure may unintentionally stunt future development of AQIs that are not meaningful to capital markets participants. Therefore, we recommend voluntary AQI disclosures with monitoring to better gauge the utility and to further the development of AQIs.

We agree that improving audit quality is PCAOB's ultimate objective and is in the best interest of auditors, audit committees, preparers, users and regulators. We believe that all stakeholders should directly participate in the development of AQIs without the constraint of preliminary regulatory definitions. Our comments are restricted to overall observations regarding the development process, disclosure and potential AQIs.

## **Development Process**

As mentioned above, the PCAOB, Securities and Exchange Commission (SEC) and other regulators, auditors, audit committees, preparers and users have a common interest in quality audits. This aligned



interest requires that all stakeholders collaborate to develop a core list of the most predictive, comparable indicators. We believe that the best practices with respect to the reporting of AQIs will come from sharing perspectives among all stakeholders. These perspectives include:

- the key performance indicators (KPIs) used by the accounting firms to manage their audit practices;
- the insight the PCAOB brings from the inspection process as to which indicators have traction in practice; and
- the indicators that give preparers, audit committee members and investors a platform to ask questions and hold firms accountable.

To that end, we note that the Center for Audit Quality has also developed a list of AQIs. We recommend the creation of a working group with representatives from the PCAOB, SEC, CAQ, accounting firms and other stakeholders, such as audit committees, preparers and users, to develop an initial core list of AQIs. That core list, rather than being a complete and finite list, would serve as the foundation for AQIs that can evolve over time based on market relevance. Over time, accounting firms will monitor their KPIs (AQIs) for their audit practice and may improve and refine measures. Similarly, PCAOB inspection results may clarify which indicators are ultimately the most predictive. New research by academics or others may provide further insight. Therefore, we believe that AQIs should evolve from an initial core list to reflect refinements and improvements in the measures. The working group could reconvene periodically to consider changes.

### **Disclosure**

The SEC has no history of regulating performance indicators used by registrants. We strongly believe that disclosure of AQIs should not be regulated and, as noted above, believe that a working group of stakeholders is the appropriate forum for the development and refinement of AQIs. Voluntarily disclosure by the largest accounting firms is already occurring and the marketplace will ensure that others follow. The PCAOB has the opportunity to monitor disclosures through the inspection process.

We also believe that quantitative measures alone are not enough. A clear understanding will require accompanying qualitative disclosure, such as trends and changes in circumstances, similar to Management Discussion & Analysis for a registrant's financial KPIs.

### **Potential AQIs**

Although our letter is not providing feedback on all 28 AQIs in the Release, we believe that 28 indicators are too many. Committee members were not familiar with any company that monitors or discloses this level of financial KPIs.

As noted, it is informative to investors, audit committee members and others to understand what the indicators of audit quality are and how accounting firms compare to their peers. A common understanding of the measurement and computational methodology is required for comparability. Those AQIs that are not easily standardized or are based on subjective measures should be eliminated. With voluntarily disclosure, a firm could disclose an indicator that is important to their practice with



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accompanying disclosure of how the measure was calculated and why the firm uses it as an indicator (that is why it is indicative for that firm).

Additionally, any of the 28 that are not currently used by the accounting firms to manage their audit practices, or would not be expected to be used in the future, should be eliminated. Those eliminated by this screen can be monitored and considered in the evolutionary development process described above.

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We would be pleased to discuss our comments with the PCAOB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder". The signature is written in a cursive style.

Nancy J. Schroeder, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
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