



Ms. Sherry Hazel
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

November 7, 2014

RE: Enhancing Audit Quality – Plans and Perspectives for the U.S. CPA Profession

Dear Ms. Hazel:

PricewaterhouseCoopers LLP (“PwC”) appreciates the opportunity to provide comments on the AICPA’s Enhancing Audit Quality (“EAQ”) initiative discussion paper.

We strongly support the AICPA’s commitment to enhancing audit quality and therefore the goals of the EAQ initiative. We understand that the EAQ initiative will comprise two phases, the first focused on the improvement of audit quality in the near term and the second focused on a longer term transformation of practice monitoring. We have organized our comments into two categories as discussed in the whitepaper: 1) Elements of quality and 2) Practice monitoring of the future.

Elements of quality

Overall, we agree with the quality framework outlined in the discussion paper and believe that the underpinnings of audit quality are grounded in the concepts of due care, professional competence, and clear and concise standard setting. Consistent quality is best achieved when the framework is supplemented with educational programs, the appropriate guidance for practitioners, and holding practitioners accountable when appropriate. Professional skepticism is also a key element of due care and it is widely recognized as the mindset that an auditor is required to have. As a result, we believe it should be highlighted as part of the quality framework even if it is discussed as being part of due care.

We support the AICPA’s initiatives to develop and enhance resources for member CPA’s in both understanding and fulfilling their professional commitment to due care. We also acknowledge that the AICPA is considering changes to the CPA exam which is an important foundation to the EAQ initiatives. We are supportive of this initiative and will consider providing specific feedback related to that project.

In response to the EAQ questions considering whether changes to the quality control standards are needed, we agree that those standards are one of the appropriate vehicles to support quality enhancement. We would support changes that are principle-based to accommodate firms of all sizes. We would also be supportive of limited changes that could encourage more use of pre-issuance quality control monitoring within the firms. We are also supportive of appropriate changes in acceptance and continuance requirements, on-going continuing education, and membership in applicable AICPA Audit Quality Centers as a pre-requisite for auditing specialized entities such as employee benefit plans.

We note that the AICPA’s accounting and auditing guides are a good resource for practitioners to use when auditing a particular industry or subject matter. Finding ways to continue to educate practitioners to their existence and availability would better equip them to meet the challenges of performing quality audits as described in the EAQ discussion paper.



Practice monitoring of the future (PMOF)

We support the goal of strengthening the AICPA's peer review program to assist and promote the quality of reviewed firms and to continue to build confidence in our profession. With that aim, we support changes that would promote reviewed firms detecting their own potential deficiencies sooner through their own quality control systems. We support initiatives to improve the quality of individual peer reviewers so that the peer review process is instructive and developmental for the reviewed firm.

As currently described in the EAQ paper, PMOF addresses both the notion of pre-report issuance quality control (monitoring) and post-report issuance monitoring. We believe those are separate processes with separate objectives and the AICPA's role in developing and promoting professional standards and practices in those areas should be different. Pre-report issuance monitoring should be a process internal to the firm, perhaps with standards and guidance from the AICPA. Post-report issuance monitoring should continue to be based on internal inspection by the members and a robust peer review process by the AICPA.

In addition, PMOF appears to emphasize data analysis and technology in a way that may result in unintended consequences. In this regard we note that the profession has yet to identify and gain acceptance for audit quality indicators and in particular, predictive audit quality indicators. We believe that PMOF should focus first on near term enhancement to the monitoring process, including the quality of peer reviewers, the questions raised above related to pre-issuance versus post-issuance monitoring, determining reliable audit quality indicators and then firm information requirements and advanced technology to leverage that information.

Also, PMOF in the short term appears to have a greater emphasis on enforcement as compared to enhancing standards, education and specialization. While setting high standards and rigorously enforcing those standards is critical to our profession, we believe the EAQ should balance the discussion to emphasize quality first followed by appropriate accountability.

We support a reasonable risk-assessment process to focus peer review efforts on audit areas that are meaningful to eventual users of the financial statements. However, the peer review program should not only be risk-based but also evaluate a firm's system of quality control over audit results and should continue to include a reasonable cross-section of engagement files. Similarly, the introduction of a national group of technical experts could add significant value to areas requiring specialization. We would recommend that its implementation be primarily consultative in order to help peer reviewers and member firms achieve quality results.

Determining the completeness of firms that should be part of the peer review program and engagements subject to peer review is essential to a strong and credible monitoring program. Accordingly, we support efforts to monitor firm's compliance with the peer review program and incorporating procedures into the review process to test the completeness and accuracy of engagement lists.

In considering peer review reporting, we think the current model is appropriate in that it focuses on a firm's overall system of quality control as opposed to a discussion of individual engagements. However, recognizing that certain constituents, such as regulators, need more information we could envision a methodology that allows transparency into peer review findings in limited circumstances.



We look forward to further details from the AICPA on the longer-term plans for practice monitoring in order to better understand the full impact of the EAQ initiative on practitioners. Any eventual changes to the peer review model will require a thorough cost-benefit analysis and broad discussion of the impacts to the AICPA member firms.

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We appreciate the opportunity to express our views on the EAQ initiative and look forward to commenting further on exposure drafts that will be developed through this process. Please contact Keith Rowden (713-356-6506) or Marc Panucci (973-236-4885) to discuss our comments or answer any questions you may have regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP