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Dear Center Members

Approach to Audit Quality Indicators

Today, the Center for Audit Quality (CAQ) published the [CAQ Approach to Audit Quality Indicators](#), which represents a two-year effort with its member firms to develop perspectives regarding which indicators may be most relevant and how they should be communicated to stakeholders. The paper sets forth in detail the CAQ's thoughts on the right approach to communicate a set of potential Audit Quality Indicators (AQIs) which will be pilot tested by CAQ member firms with select audit committees. The *CAQ Approach to Audit Quality Indicators* is based on two key elements:

1. Communications of AQIs should be directed at audit committees.

The CAQ approach to communicating a set of potential AQIs recognizes the vital role the audit committee plays in providing oversight of the audit. These communications are intended to supplement other communications provided to the audit committee, including the auditor's required communications under professional standards, as well as, information included in the audit firm's audit quality and transparency reports (if issued by the audit firm).

2. Communication of AQIs should be focused largely on engagement-specific indicators.

Communication of indicators at the engagement level could drive actions that might help maintain or increase audit quality on an engagement, and may also assist the audit committee in evaluating the effectiveness of the audit firm. Additionally, AQIs may primarily be quantitative in nature; however, these indicators are more useful when accompanied by qualitative contextual information to enhance an audit committee's understanding of engagement-specific matters.

The *CAQ Approach to Audit Quality Indicators* includes a set of potential AQIs that we believe, taken as a whole, could aid audit committees in their oversight of the audit. This set of AQIs encompasses four key elements of audit quality:

- o Firm leadership and tone at the top
- o Engagement team knowledge, experience, and workload
 - Knowledge and experience of key engagement team members (e.g., engagement partner(s), manager(s), and engagement quality review partner(s))
 - Audit firm training requirements
 - Trends in engagement hours and related timing
 - Allocation of resources by significant risk areas
 - Specialists and national office personnel involvement by significant risk areas

- Key engagement team members' workloads
- o Monitoring
 - Internal quality review findings
 - PCAOB inspection findings
- o Auditor reporting
 - Reissuance restatements and withdrawn auditor's reports

The CAQ has sought input from key stakeholders throughout the development of our approach, including the audit profession, audit committee members, regulators, investors, and academics. Also, the CAQ has begun a profession-wide effort to perform pilot testing with engagement teams and their related independent audit committees. Pilot testing will run through the completion of the 2014 audit cycle. As the CAQ commences pilot testing of the proposed approach outlined above, we will continue to refine our thinking on the identified set of potential AQIs.

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