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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 046: Quality Control - Release No. 2019-003, *Potential Approach to Revisions to PCAOB Quality Control Standards*

RSM US LLP appreciates the opportunity to offer our comments in response to the Public Company Accounting Standards Board's (PCAOB) Concept Release, *Potential Approach to Revisions to PCAOB Quality Control Standards* (the Concept Release). RSM US LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers. We have nearly 11,000 professionals in more than 90 cities in the United States and Canada.

We have seen firsthand that the auditing environment has changed significantly since the current PCAOB quality control (QC) standards were issued. Most notably, audit firms have been affected by technological advancements, greater use of firms within their global networks, enhanced monitoring capabilities and other evolving practices. Because a firm's QC system lays the foundation for audit quality, it is important that the related standards provide a comprehensive framework that reflects the many developments in the profession. We therefore agree that the current PCAOB QC standards adopted in 2003 should be revised, and that a shift to a principles-based, risk-assessment-driven QC design is warranted.

We support the PCAOB's overall approach for revising its QC standards based on recently proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (Proposed ISQM 1). We support the robust, principles-based risk-assessment approach used in ISQM 1, and believe that its use as a starting point for a future PCAOB QC standard will result in foundational alignment of the International Auditing and Assurance Standards Board (IAASB) and the PCAOB. Because some firms that are subject to PCAOB standards also are subject to the QC standards of the IAASB, it is important to have a common framework as a basis for PCAOB QC standards. However, we support this alignment based on the totality of ISQM 1, including both the proposed requirements and application guidance. Therefore, we suggest the PCAOB continue to monitor the status of ISQM 1 and evolve the development of the PCAOB's QC standards to remain aligned with ISQM 1 as it is finalized.

Proposed ISQM 1 generally supports the flexibility needed for a firm to tailor its QC system appropriately based on the firm's size, the complexity of the engagements it performs and related risks to quality. This is important because there is a wide array of registered public accounting firms with varying sizes and client bases, and all firms need a QC system that responds to the risks that are applicable in their practices. A risk-based approach allows for scalability – especially when there are not overly prescriptive requirements embedded in the principles-based framework.

We believe the PCAOB should seek to avoid unnecessary differences between its future QC standard and ISQM 1. Incremental and alternative requirements, if any, should follow a principles-based approach and not be overly prescriptive. Too much specificity can cause firms to focus on compliance with a

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“checklist” mentality instead of by thoroughly performing a risk-based evaluation of risks to quality. It also is important that QC standards provide a firm with reasonable assurance (i.e., not absolute assurance) that its personnel comply with professional standards. Incremental and alternative requirements considered, if any, also should be vetted through the lens of this principle.

Proper implementation of a future PCAOB QC standard based on ISQM 1 will require much thought and due care by all firms. It will take significant amounts of time to carefully design, implement and refine the risk assessment approach and the overall evaluation of the QC system contemplated by ISQM 1. We believe compliance with a revised QC standard also will require firms to make significant investments in tools, templates and methodologies. As the PCAOB drafts its proposed revised QC standards, we ask that consideration be given to providing comprehensive application materials (i.e., the ISQM 1 application materials) and examples that would be useful in assisting firms in their implementation processes.

In the appendix to this letter, we share our views in response to the questions for which feedback was specifically requested in the Concept Release.

We appreciate this opportunity to provide feedback on the Concept Release and would be pleased to respond to any questions the Public Company Accounting Oversight Board or its staff may have about our comments. Please direct any questions regarding this letter to Sara Lord, Chief Auditor, at 612.376.9572 or to Jamie Klenieski, Partner – Audit Quality and Risk Management, at 215.648.3014.

Sincerely,

RSM US LLP

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APPENDIX

I. Introduction

1. *Should PCAOB QC standards be revised to address developments in audit practices and provide more definitive direction regarding firm QC systems? Are there other reasons for changes to the QC standards that we should take into account?*

Yes. We support the revision of PCAOB QC standards to address developments in audit practices using a risk-based approach in a principles-based framework. Other standard setters (i.e., the IAASB and the Auditing Standards Board [ASB]) already have updated their QC standards since the PCAOB QC standards were adopted.

2. *Is it appropriate to use ISQM 1 as the basis for a future PCAOB QC standard? Are there alternative approaches we should consider?*

Yes. It is appropriate to use ISQM 1 as the basis for a future PCAOB QC standard because, among its other attributes, ISQM 1 is a comprehensive principles-based standard that uses a risk-based approach. We do not believe it is necessary to consider other approaches because some firms that are subject to PCAOB standards also are subject to the QC standards of the IAASB, and it would not be practical to require firms to comply with different QC approaches. The QC standards of the IAASB are applicable not only to multinational firms but also to U.S. domestic firms that perform component auditor work in accordance with International Standards on Auditing. Alignment of QC systems, based on aligned standards, is in the best interests of audit quality, capital markets and regulators.

We believe, however, that it would not be appropriate for the PCAOB to only use the requirements paragraphs from ISQM 1 as the basis for a future PCAOB QC standard. Contrary to historical PCAOB audit standard-setting, we believe it will be necessary to include application guidance paragraphs from ISQM 1 (and other interpretive application guidance and examples as deemed necessary) in a future PCAOB QC standard in addition to the requirements paragraphs of ISQM 1.

3. *Are the reasons provided for differences between ISQM 1 and a future PCAOB QC standard appropriate? Are there other potential reasons for differences that we should consider?*

We agree that a few requirements incremental to ISQM 1 may be needed to align the PCAOB's future QC standard with U.S. federal securities law, SEC rules and other PCAOB standards and rules. However, we believe significant discernment should be used before proposing other requirements incremental to ISQM 1 so as to avoid unnecessary differences between the future PCAOB QC standard and ISQM 1. Also, such incremental requirements, if any, should follow a principles-based approach (i.e., not be overly prescriptive) such that scalability is feasible.

We liken such an approach to that used in the *2013 COSO Internal Control-Integrated Framework*, which provides components and principles, and then entities build controls based on the framework provided. However, if there are specific requirements against which the PCAOB plans to inspect firms, those should be included in the future standard. This will enable firms to proactively identify and address those items the PCAOB has deemed relevant to all firms, regardless of risk assessment, and incorporate them into the implementation of their QC systems.

II. Background and considerations for potential revisions to QC standards

4. *Are there other developments affecting audit practices we should consider addressing in a future PCAOB QC standard?*

Proposed ISQM 1 includes many enhancements that address developments in audit practices. We believe the PCAOB should continue to monitor QC standard setting by the IAASB and the ASB. Also, consideration should be given to monitoring developments related to relevant ethical requirements, such as the recently proposed changes to the SEC independence rules, as well as changes in technology. Further, there is a possibility that the application of future PCAOB QC and other standards could be affected by legislation, such as the proposed Small Business Audit Correction Act of 2018.

5. *To the extent that audit firms are already updating or making enhancements to their QC systems to align with international developments, can you characterize the nature and extent of those changes and related efforts? What benefits do you anticipate from updates to QC systems?*

Our firm will continue to update its QC system on a regular basis as a result of external and internal inspections and monitoring as well as changes in the middle-market and regulatory landscapes. We are considering how a future PCAOB QC standard will affect our QC system, and we are considering the impacts of the proposed ICQM on our QC system.

U.S. firms will need to update their QC systems in response to a future ASB QC standard, which likely will affect larger portions of most practices than will a future PCAOB QC standard. We therefore believe it will be most efficient for U.S. firms if the required implementation of a future PCAOB QC standard occurs concurrently with or after U.S. firms have adopted the future ASB QC standard, which is expected to fundamentally align with ISQM 1.

6. *Please provide references to any academic studies or data we should consider, including academic studies or data that might address costs and benefits relevant to an economic analysis of potential revisions to PCAOB QC standards.*

We agree that consideration of costs and benefits is relevant in all potential revisions to PCAOB QC standards. It will be important that the requirements result in benefits that are commensurate with the costs.

III. Potential standard-setting approach based on Proposed ISQM 1

7. *Would the approach to quality control standards described in this concept release be preferable to the current PCAOB quality control standards?*

Yes. The current PCAOB QC standards are outdated and can be improved by using an approach based on Proposed ISQM 1 as a starting point with minimal incremental requirements only when necessary to allow for scalability.

8. *Would the objective of a quality management system provided in Proposed ISQM 1 be an appropriate objective for a QC system under PCAOB standards? Are there additional objectives that a quality control system should achieve?*

We agree that the objective of a quality management system provided in Proposed ISQM 1 fundamentally would be appropriate. However, to clarify that the objective should be to provide the firm with *reasonable* assurance, we suggest the following revision (proposed additions are shown in bold font):

The objective of the system of quality management is to provide the firm with reasonable assurance that:

- a. The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b. Engagement reports issued by the firm or engagement partners are appropriate in **all material respects for** the circumstances

We believe it is important that the concept of *reasonable* (as opposed to *absolute*) assurance be pervasive through a future PCAOB QC standard.

We are not aware of other objectives a QC system should achieve. If additional quality objectives are included in ISQM 1 when it is finalized, those should be included in the revised PCAOB QC standards.

9. *Would the potential revisions to PCAOB QC standards described in this concept release improve QC systems and audit quality?*

Yes. We believe the potential revisions to the PCAOB QC standards described in the Concept Release can be substantially effective in improving QC systems and audit quality because they will cause firms to evaluate their existing QC systems using a risk-assessment approach. This, in turn, could cause firms to potentially identify areas where QC system enhancements are needed to improve audit quality and, conversely, identify areas where lesser risks exist and responses or resources could be reallocated to higher risk areas.

The actual effectiveness of future PCAOB QC standards largely will be driven by the requirements of the final standards and the related implementation guidance provided. Additionally, the effectiveness will be impacted by the ability of the firms to implement the standard in a risk-based fashion as addressed further in our response to question 12.

10. *Would the potential revisions to PCAOB QC standards described in this concept release enhance firms' ability to prevent audit deficiencies? Are there additional revisions to PCAOB QC standards that we should consider to support a preventive approach to managing quality?*

A firm's QC system is designed to *detect and deter* audit deficiencies and thereby may *prevent* an engagement report from being issued by the firm that is not appropriate in the circumstances. No QC system will prevent all audit deficiencies with absolute assurance. We believe the potential revisions to PCAOB QC standards described in the Concept Release include enhancements to existing PCAOB QC standards that will help firms attain reasonable assurance that engagements are conducted in accordance with professional standards and engagement reports are appropriate in all material respects for the circumstances.

11. *Should a future PCAOB QC standard have additional or alternative requirements for firms that audit brokers and dealers? If so, what?*

No. We do not believe it is necessary or appropriate for a future PCAOB QC standard to have additional or alternative requirements for firms that audit brokers and dealers or for firms that audit companies in any other specialized industry. We do not believe there are foundational QC system differences for audits in any particular industry. A future PCAOB QC standard should be principles-based and scalable, driving risk assessments – not dictating responses – by individual firms. Using such an approach, upon performing its risk assessment, an individual firm may

determine, for example, that, to have an effective system of quality control, additional tools or training requirements are needed for auditors of broker-dealers (or other specialized industries).

IV. Specific aspects of a QC system and potential changes to PCAOB standards

12. *What would be the costs and benefits of implementing and maintaining an integrated QC system as described in this concept release? Are there particular costs and benefits associated with specific components that we should consider? What, if any, unintended consequences would there be?*

We do not know what the costs would be for implementing or maintaining the integrated QC system described in the Concept Release because there is no existing comparable standard. It appears that extensive efforts and significant investments in personnel and technology could be needed to implement such a future QC standard successfully. It would be helpful to firms if the PCAOB would clarify the expected documentation level for QC systems. For example, is the depth of documentation expected for all firms similar to that prepared by issuers to support internal control over financial reporting for integrated audits? The depth of required documentation could create challenges to scalability for smaller or less complex firms.

However, the audit profession clearly understands the need for an updated QC standard. The costs are also high when personnel do not fulfill their responsibilities in accordance with professional standards and when engagement reports are issued that are not appropriate in the circumstances.

It is important that a future QC standard be principles-based using a risk-based approach to allow for the most effective and efficient implementation possible. An unintended consequence could arise if the PCAOB's standard-setting and inspections teams are not aligned on the principles-based approach to the future QC standard. For illustration, allowing a principles-based approach will inherently result in firms identifying differing quality risks and related responses and implementing differing controls. This will be true for firms of similar size or other characteristics. To ensure the QC standard is implemented as intended, it will be necessary for the PCAOB inspections teams to evaluate the risk assessment approach used and implementation of the standard by each firm uniquely for each firm inspected. Currently, the inspections teams conduct benchmarking and comparisons across multiple firms. If this occurs and some firms are criticized for not having the same QC system as others, the implementation of the standard will not support the principles-based nature intended. Additionally, it could create a situation in which it appears that firms have poor QC systems when they truly have appropriately designed risk-based systems. Because the PCAOB primarily inspects firms in the United States, this appearance, in turn, could lead to a perception that firms in the United States have disproportionately poor QC systems compared to those in other countries, which would not be accurate.

A. Firm governance and leadership

13. *Is the approach to firm governance and leadership appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe the ISQM 1 requirements regarding firm governance and leadership will provide significant foundational enhancements to existing PCAOB QC standards, and no changes to the approach are necessary for this component.

14. *Would more clarity in the assignment of firm supervisory responsibilities enhance supervision and positively affect QC systems and audit quality?*

Given the ISQM 1 requirements for the individuals who have operational responsibilities for the system to have the appropriate experience, knowledge and accountability, we do not believe it is necessary for the PCAOB to incrementally require firms to make explicit assignments of supervisory responsibilities at successive levels within the firm up to a firm's chief executive officer or equivalent. We believe the firm's governance and leadership should assign firm supervisory responsibilities that are responsive to the quality risks unique to each firm.

Also, we believe it would be challenging to define such considerations in a clear manner. For example, the following two statements within the Concept Release¹ could be construed as contradictory:

- a. ...we are considering an incremental provision that would require firms to make explicit assignments of supervisory responsibilities at successive levels within the firm up to a firm's chief executive officer or equivalent.
- b. The incremental provision would not require firms to develop or adopt a particular supervisory structure for their QC systems.

15. *Should a future PCAOB QC standard address quality considerations in the appointment of a firm's senior leadership? If so, how?*

Given the ISQM 1 requirements for the individuals who have operational responsibilities for the system to have the appropriate experience, knowledge and accountability, we do not believe it is necessary to include incremental requirements addressing quality considerations in the appointment of a firm's senior leadership. Each individual firm should address quality considerations in the appointment of the firm's senior leadership.

16. *Allocation of financial resources is one aspect of firm governance and leadership under Proposed ISQM 1. Should this be given greater emphasis in a future PCAOB QC standard than it is given in Proposed ISQM 1? For example, should a future PCAOB QC standard emphasize the importance of counterbalancing commercial interests that may lead to underinvestment in the audit and assurance practice, particularly in firms that also provide non-audit services?*

Proposed ISQM 1 requires a firm to plan for its resource needs, including financial resources, and obtain, allocate or assign resources in a manner that supports the firm's commitment to quality and enables the design, implementation and operation of the firm's QC system.² We believe this requirement addresses the sufficiency of resources in a manner that is scalable for all firms. We therefore do not believe a separate, more specific requirement is necessary to direct firms to allocate sufficient financial resources to their audit and assurance practices.

Also, it sometimes is difficult to discern how the use of firm financial resources should be allocated to the audit practice specifically. For example, as technology evolves, firms see more interconnectivity across lines of business (e.g., synergies of artificial intelligence for consulting and audit services), resulting in investments having dual purposes.

¹ See page 16 of the Concept Release.

² See page 15 of the Concept Release.

17. *Should a future PCAOB QC standard incorporate mechanisms for independent oversight over firms' QC systems (e.g., boards with independent directors or equivalent)? If so, what criteria should be used to determine whether and which firms should have such independent oversight (e.g., firm size or structure)? What requirements should we consider regarding the qualifications and duties of those providing independent oversight?*

Currently, professionals from outside a firm primarily are hired in an advisory (i.e., not an oversight) capacity. We do not believe it would be helpful or practicable to require firms to incorporate mechanisms for independent oversight as we believe that, even with a requirement to have such independent oversight, the roles of independent directors would vary as to levels of authority, responsibility and influence within each firm. Also, a requirement to incorporate mechanisms for independent oversight would not make the standard easily scalable for smaller firms. We believe the discernment regarding whether to have independent directors or other advisory oversight bodies should take place in the board room of the individual firms.

B. The firm's risk assessment process

18. *Is the approach to the firm's risk assessment process appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

Yes. We believe the ISQM 1 requirements regarding the firm's risk assessment process will provide significant enhancements to existing PCAOB QC standards, and no changes to the approach are necessary for this component. Because some firms that are subject to PCAOB standards also are subject to the QC standards of the IAASB and because a firm's risk-assessment process is central to its QC system, it will be appropriate for the PCAOB to align its future QC standard with ISQM 1 after it is finalized.

19. *Are principles-based requirements sufficient to prompt firms to appropriately identify, assess, and respond to risks, or is supplemental direction needed? If supplemental direction is needed, what requirements would assist firms in identifying, assessing, and responding to risks?*

It is important that requirements be principles-based so that firms focus on the objective of the QC standard, rather than on overly prescriptive supplemental direction. Because the identification and assessment of quality risks and related responses are dependent on the facts and circumstances of each firm, we believe supplemental direction should not take the form of requirements; rather supplemental direction should focus on the thought process for identification of quality risks and development of appropriate responses. In drafting supplemental direction, we believe the Board should consider using clear language and examples to explain the risk assessment process as thoroughly as possible. Also, the Board should consider clarifying whether any supplemental direction provided is authoritative.

20. *Should a future PCAOB QC standard specify certain quality risks that must be assessed and responded to by all firms? If so, what should those risks be?*

We believe the quality risks that must be assessed and responded to by all firms should align with those required in ISQM 1.

21. *Should firms be required to establish quantifiable performance measures for the achievement of quality objectives? If so, how should such measures be determined and quantified (see also Question 46)?*

No. There currently is diversity in practice regarding the use and calculation of quantifiable performance measures. Therefore the use of quantifiable performance measures should not be required unless a robust principles-based framework is used to determine measures that are comparable across firms and that accurately portray the achievement of quality objectives. Without such a framework, no metrics should be required. Firms should continue to have the ability to discern which measures are meaningful in monitoring audit quality and in evaluating their QC systems.

C. Relevant ethical requirements

22. *Is the approach to relevant ethical requirements appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

Yes. We agree that the ISQM 1 requirements are a good starting point, but they will need to be tailored to the U.S. regulatory environment, including existing PCAOB Ethics and Independence Rules as well as the SEC's rules on independence.

23. *Should a future PCAOB QC standard extend detailed requirements for independence quality controls (formerly SECPS member requirements) to all firms? How would this affect the costs and benefits of a QC system?*

If future requirements for independence quality controls are principles-based and use a risk-based approach for compliance, we believe such requirements should apply to all firms that perform audits in accordance with PCAOB standards or at least to all firms that perform audits of issuers. Because more than one firm can be involved in the performance of an audit, it is important that their independence quality controls be based on the same framework.

If the PCAOB revises the requirements for professionals to report apparent independence violations to expressly cover *any* apparent violations affecting the firm's independence³, we suggest the Board clarify that a deficiency occurs only when a material violation is not identified or when the system is not properly designed to detect a certain type of violation. We do not believe it is reasonable to expect a QC system to operate with absolute assurance.

D. Acceptance and continuance of clients and engagements

24. *Is the approach to acceptance and continuance of clients and engagements appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe it is appropriate to use ISQM 1 requirements as a starting point, but we do not believe it is necessary to add incremental QC requirements related to engagement-level matters, such as communications with the predecessor auditor or obtaining an understanding with the client regarding the services to be performed.

³ See page 21 of the Concept Release.

We also do not believe it is appropriate to add incremental QC requirements related to audit committee pre-approval for services, which is dictated by PCAOB Ethics and Independence Rules 3524 and 3525. Because it is anticipated that future PCAOB QC standards related to relevant ethical requirements would be tailored to the U.S. regulatory environment, including existing PCAOB ethics and independence standards,⁴ we believe it would be duplicative to include incremental QC requirements related to audit committee pre-approval in a future PCAOB QC standard for acceptance and continuance of clients and engagements.

Further, we do not believe it is appropriate to add incremental QC requirements related to consideration of risks associated with the engagement to identify matters that could significantly affect the conduct of the engagement and assess whether the firm can develop responses. Although we believe information gathered during the client acceptance or continuance decision process can help to identify risks of material misstatement, we do not believe it would be appropriate for the QC standards to create requirements regarding the firm's ability to develop responses to risks of material misstatement. Responses to risks of material misstatement generally are developed during audit planning, which is already addressed in PCAOB AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and PCAOB AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

E. Engagement performance

25. *Is the approach to engagement performance appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe it is appropriate to use ISQM 1 requirements as a starting point. However, we believe it is not necessary to include incremental requirements.

26. *Should a future PCAOB QC standard expressly address firm responsibilities and actions to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams? If so, how?*

We do not believe a future PCAOB QC standard should include incremental or alternative requirements that expressly address firm responsibilities or actions to support or monitor the application of professional skepticism or significant judgments made by engagement teams. We believe a firm should use its risk assessment process to discern controls that could be implemented to address the exercise of appropriate professional judgment and professional skepticism in planning and performing engagements such that conclusions reached are appropriate as already required by Proposed ISQM 1.⁵

27. *Should a future PCAOB QC standard expressly address the use of other audit participants? If so, should the scope of the requirements include affiliated and non-affiliated entities and individuals, including specialists and service delivery centers? Should we consider any changes to the scope of the potential requirements described? If so, what changes would be necessary?*

We support a strong QC system across a network. Incremental requirements related to the use of other audit participants would appear to not give credit to a strong QC system throughout a

⁴ See pages 19 and 20 of the Concept Release.

⁵ See page 23 of the Concept Release.

network. We therefore believe requirements for the use of other audit participants should not be addressed in a future PCAOB QC standard, but rather, should be addressed in PCAOB auditing standards, such as in the PCAOB's proposed amendments relating to the supervision of audits involving other auditors. IAASB proposed enhancements to International Standards on Auditing 220, *Quality Management for an Audit of Financial Statements*, reflect many of the concepts related to the use of other audit participants.

28. *Should the Appendix K requirements be retained? Should the scope or application of the Appendix K requirements be changed, for example to extend the requirements to all audits in which a non-U.S. firm issues an audit report on the financial statements of an issuer, or to exempt certain audits from one or more requirements? Should the individual requirements in Appendix K for filing reviews, inspection procedures, or disagreements be revised or updated? If so, how? Is it clear how the responsibilities of an Appendix K reviewer differ from the role of the engagement quality reviewer?*

We do not think all Appendix K requirements remain relevant so believe they should be evaluated for redundancies and necessary updates.

29. *Should a future PCAOB QC standard require firms to adopt engagement monitoring activities (e.g., performance measures, engagement tracking tools, or reviews of in-process engagements) that would prompt them to proactively prevent or detect engagement deficiencies? What are examples of less formal, but effective, engagement monitoring activities that could be adopted by smaller firms?*

Monitoring activities vary by firm based on many factors, including the size of the firm, the number of engagements, and the complexities of its client base. While we agree that monitoring activities assist in providing firms reasonable assurance that an audit report will be appropriate in all material respects for the circumstance, overly prescriptive requirements do not provide sufficient flexibility for scalability and are not consistent with a principles-based framework that uses a risk-based approach. We do not believe it is feasible to require firms to develop and implement specific engagement monitoring activities. We believe it would be helpful if the PCAOB could provide guidance and examples of various monitoring activity options.

30. *How should a future PCAOB QC standard expressly address firms' actions to support the fulfillment of the auditor's responsibilities under Section 10A of the Exchange Act, including:*
- a. *With respect to fraud?*
 - b. *With respect to other illegal acts?*
 - c. *With respect to going concern consideration?*

No. We do not think it is necessary for a future PCAOB QC standard to expressly address firms' actions to support the fulfillment of the auditor's responsibilities under Section 10A of the Exchange Act. We believe the auditor's responsibilities, such as with respect to fraud, other illegal acts, and going concern consideration, should be addressed, as they currently are, in PCAOB auditing standards.

F. Resources

31. *Is the approach to resources appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe the ISQM 1 requirements regarding resources are sufficient, and no incremental requirements are needed.

32. *Should a future PCAOB QC standard continue to expressly address technical training on professional standards and SEC requirements? Are there other subjects for which training should be expressly required? Which firm personnel should be covered by the training requirements? Should the standards set minimum requirements for the extent of training? If so, what should those requirements be based on?*

We support the need for technical training focused on professional standards. State boards of accountancy govern licensure of certified public accountants and set training requirements. It is duplicative and confusing to auditors if a standard setter also dictates training requirements. Also, we believe determining the appropriate amount and type of training will be part of a firm's risk assessment process, taking into account factors such as training needs through a career life cycle, the needs of the workforce of the future, and the skillsets needed to conduct the audits of the firm's types of issuer clients and other audits performed under PCAOB standards.

If a future PCAOB QC standard expressly addresses technical training on professional standards and SEC requirements for auditors who perform engagements or are assigned to QC roles that relate to compliance with professional standards and SEC requirements, we believe consideration should be given to allowing exemptions based on a de minimis number of hours served in a supporting role in an engagement with appropriate supervision.

We do not support prescriptive requirements related to industry training. Individual firms' systems of quality control should identify industry-specific considerations as a quality risk and respond, as appropriate, with specific required industry training.

33. *Should a future PCAOB QC standard continue to expressly address required competencies of engagement partners? Are the competencies discussed in this concept release appropriate? Are there other competencies that should be added?*

We believe the ISQM 1 requirements properly address required competencies of engagement partners, and therefore, no incremental requirements are needed.

34. *Should the competencies of individuals in engagement or QC roles, in addition to the engagement partner and engagement quality reviewer, be addressed in a future PCAOB QC standard?*

We do not believe it is necessary to expressly address competencies of individuals in engagement or QC roles, beyond those of the engagement partner and engagement quality reviewer. We believe definitions of such roles and such competencies can be very subjective.

35. *Should a future PCAOB QC standard expressly address the use of emerging technology in QC systems or engagements? Should a future PCAOB QC standard expressly require firms to design and implement controls to prevent unauthorized access to technology and data? Are there any other requirements we should consider related to the use of technology on engagements?*

We do not believe a future PCAOB QC standard should expressly address the use of emerging technology in QC systems or engagements. We do believe the PCAOB should recognize and emphasize the need for firms to continue to evaluate this in their risk assessments.

While we do believe firms should design a system of quality control that evaluates the use of technology and data management tools in an audit and provides reasonable assurance that this information will not be accessed by an unauthorized user, we do not believe the QC standard would need to explicitly state this. Firms should be able to develop a risk management approach to the use of that technology based on their own risk assessments rather than as required through a QC standard.

36. *Ensuring that firm personnel in QC and engagement roles have sufficient time to properly carry out their responsibilities is one aspect of firm resources under Proposed ISQM 1. Should a future PCAOB QC standard place greater emphasis on this requirement than Proposed ISQM 1 does? If so, how?*

No. We believe Proposed ISQM 1 appropriately emphasizes the need to have sufficient time to properly carry out responsibilities, and there is no need for a future PCAOB QC standard to place additional emphasis on this requirement.

37. *Should a future PCAOB QC standard expressly address how the firm's incentive system, including compensation, incorporates quality considerations? If so, how?*

Although we believe a firm's incentive system should incorporate quality considerations, we believe a future PCAOB QC standard does not need to expressly address how such considerations should be incorporated into an incentive system. We believe that Proposed ISQM 1 properly requires personnel to be held accountable through timely evaluations, compensation, promotion and other incentives.⁶

G. Information and communication

38. *Is the approach to information and communication appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe the ISQM 1 requirements regarding information and communication will provide significant enhancements to existing PCAOB QC standards.

39. *Should a future PCAOB QC standard require public disclosure by firms about their QC systems? If so, what should be the nature and timing of such disclosures (e.g., information about the firm's governance structure)? (see also Question 46)*

Many firms produce a transparency report of audit quality initiatives and factors that in our opinion have been helpful to audit committees of public registrants. However, we don't believe the PCAOB should require these reports as such a requirement is not scalable to all firms auditing registrants. We also believe this will have unintended consequences in which the reports will

⁶ See page 28 of the Concept Release.

become more of a formality rather than being unique to each firm. In addition, public disclosure of QC systems could create unnecessary legal consequences, which we recommend the PCAOB evaluate before requiring such disclosures.

H. The monitoring and remediation process

40. *Is the approach to the monitoring and remediation process appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe the ISQM 1 requirements regarding the monitoring and remediation process enhance existing QC requirements by including remediation activities, such as the requirement to investigate root causes of deficiencies and make the appropriate adjustments to the system of quality control. We do not believe any incremental requirements are needed; however, when drafting its QC standards, we suggest the PCAOB clearly define *findings* and *deficiencies* as used in this context. Those two terms sometimes appear to be used interchangeably in Proposed ISQM 1.

41. *Would the requirements related to monitoring and remediation discussed in this concept release prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities? Would the requirements create an appropriate feedback loop to prevent future engagement deficiencies?*

We believe the ISQM 1 requirements regarding the monitoring and remediation process would prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities and would create an appropriate feedback loop.

42. *Should a future PCAOB QC standard provide additional direction regarding determining appropriate monitoring procedures, appropriate root cause analysis, and remediation of QC and engagement deficiencies? If so, what type of direction is needed?*

No further detailed requirements are needed regarding determining appropriate monitoring procedures. However, it may be helpful to include further guidance, such as a principles-based evaluation framework, as to how to evaluate deficiencies in determining whether the firm's system of quality management provides reasonable assurance that the objectives of the standard have been achieved.

43. *Should all firms, as part of their monitoring procedures, be required to have internal inspections of their completed engagements? If not, which firms should not be required to have inspections of their completed engagements, and what alternative measures should be required for those firms?*

We do not believe firms should be required to have internal inspections of their completed engagements. Some firms may find it more effective to monitor in-process engagements, providing real-time insights and avenues for improvement and preventing an inappropriate audit from being performed. Therefore, we encourage flexibility under a QC standard that allows firms to determine the nature and extent of monitoring and inspection procedures that provide evidence of the effectiveness of their QC systems.

44. *Should a future PCAOB QC standard establish requirements for internal inspection selection criteria? Should a future PCAOB QC standard specify minimum or cyclical thresholds for inspections of completed engagements by the firm? If so, what should the threshold(s) be (e.g., one engagement for each engagement partner, and/or the audit of each issuer, broker, and dealer on a specified basis)? Should we require selection of engagements for internal inspection to include either random selection or an element of unpredictability?*

No. We agree that, in determining the nature, timing and extent of the inspection of engagements, firms should be required to include the inspection of at least one engagement for each engagement partner on a cyclical basis determined by the firm. We do not believe a future PCAOB QC standard should (a) establish requirements for internal inspection selection criteria, (b) specify minimum or cyclical thresholds for inspections of completed engagements, or (c) require selection of engagements for internal inspection to include either random selection of an element of unpredictability. Firms should develop internal inspection criteria based on the results of their risk-assessment processes.

45. *Should firms be required to perform an annual evaluation of their QC system's effectiveness? If so, should the required evaluation be as of a specified date or for a specified period? How should the date or period be determined?*

Yes. Firms should be required to perform an annual evaluation of their QC system's effectiveness as of a specified date – not for a specific period. The QC standard should be flexible so as to allow the firm to select the specified date based upon what is most appropriate for the firm, such as, for example, a date at the end of a business cycle, a fiscal year end, etc.

46. *Should firms be required to report to the Board on their annual evaluations of QC system effectiveness? If so, what should be included in the report? Should firms be required to disclose any performance measures that were important to their conclusion about their QC system's effectiveness? Should firm reports be publicly available (see also Question 39)?*

It is unclear why firms would need to report to the PCAOB their annual evaluations of QC system effectiveness. For firms that are registered with the PCAOB, a significant portion of this information already is made available to PCAOB inspection staff on at least an annual basis and sometimes more frequently. The PCAOB has made assessments of a firm's system of quality control based on this information and engagement-level inspections and reports such information in PCAOB inspection reports.

In addition, we do not believe a public document including a report of effectiveness would be useful, and we believe there are legal ramifications for firms in issuing such a public document.

47. *Should we require the firm's top leadership to certify as to their QC system's effectiveness, either as part of or in addition to the firm's report on their QC system's effectiveness?*

No. Proposed ISQM 1 requires the individual(s) assigned ultimate responsibility and accountability for the QC system to evaluate whether the QC system provides reasonable assurance that the objectives of ISQM 1 have been achieved⁷. There is no need for an incremental requirement for the firm's top leadership to certify as to their QC system's effectiveness.

⁷ See page 34 of the Concept Release.

I. Documentation

48. *Is the approach to documentation appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?*

We believe the ISQM 1 requirements regarding documentation are sufficient, and no incremental requirements are needed.

49. *Are the potential sufficiency and retention period requirements described in this concept release appropriate for a QC system? Why or why not? If not, what alternatives should we consider?*

We believe each firm should determine its own document-retention period that complies with applicable legal and regulatory requirements. We believe the ISQM 1 requirements are sufficient, and no incremental requirements are needed by the PCAOB.

50. *Should we require firms to document their understanding of network or third party provided methodology and tools, including how such methodology and tools are responsive to the requirements of the professional standards and applicable legal and regulatory requirements?*

The evaluation of network- or third-party-provided methodology and tools would be addressed in a firm's evaluation of quality risks or responses related to compliance with professional standards and applicable legal and regulatory requirements. It seems unnecessary to explicitly require firms to document their understanding of network- or third-party-provided methodology and tools as firms should be able to apply the principles in ISQM 1 to satisfy this requirement. However, we do believe that firms should design controls over the dissemination of methodology and tools if purchased from a third party to ensure acceptance and understanding. We do not believe such an expressed standard is necessary as this would be overly prescriptive and firms should determine which controls are needed during their risk assessment regardless of which entity develops the methodology.

J. Roles and responsibilities of individuals

51. *Should a future PCAOB QC standard specify roles and responsibilities of firm personnel in relation to the firm's QC system?*

No. We believe specifying roles of firm personnel is beyond the scope of what a principles-based standard should require. Also, it would not be possible to specify QC system roles that would be scalable and function appropriately for all firms. QC system roles should be determined by the individual firms.

52. *Are the roles and responsibilities described in this concept release appropriate? Are there other roles that should be added (e.g., chief ethics officer, chief technology officer)? Are there further responsibilities that should be added??*

We support the requirement in Proposed ISQM 1 to assign responsibility for compliance with independence requirements to an individual as we recognize the paramount importance and complexity of independence rules. However, we do not believe any further roles should be included in a future PCAOB QC standard so as to allow firms to operationalize oversight of compliance as deemed appropriate by the firms.

V. Related potential changes to other PCAOB standards

53. *Are the potential amendments to AS 2901 appropriate? Are there other approaches we should consider to prompt firms to appropriately respond when there are indications calling into question the sufficiency of audit procedures performed and/or audit evidence obtained?*

Yes. We believe the potential amendments to AS 2019 are appropriate. We do not believe there are any other approaches that should be considered to prompt firms to appropriately respond when there are indications calling into question the sufficiency of audit procedures performed and (or) audit evidence obtained.

54. *Does AS 1110 provide helpful direction to auditors, or should it be rescinded? Please provide explanation for your answer.*

Paragraph .03 of AS 1110 reads as follows:

Auditing standards relate to the conduct of individual audit engagements; quality control standards relate to the conduct of a firm's audit practice as a whole. Thus, auditing standards and quality control standards are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of individual audit engagements and the conduct of a firm's audit practice as a whole. However, deficiencies in or instances of noncompliance with a firm's quality control policies and procedures do not, in and of themselves, indicate that a particular audit engagement was not performed in accordance with the auditing standards.

We believe the guidance within paragraph .03 of AS 1110 that links firm QC with that at the engagement level is helpful, but such guidance could be moved to a different standard. Also, the language in paragraph .03 regarding deficiencies is helpful, but such language could be incorporated into the future PCAOB QC standard.

55. *Are there other PCAOB standards for which substantive changes might be needed to align with a future PCAOB QC standard?*

We currently are not aware of other PCAOB standards for which substantive changes may be needed to align with a future PCAOB QC standard.

VI. Scalability

56. *We intend that a future PCAOB QC standard developed using this approach would be applicable to all firms and scalable based on their size and complexity and the nature of their engagements. What factors should we consider when developing a future PCAOB QC standard to ensure that its requirements are appropriately scalable?*

It is important that requirements be principles-based so that firms focus on the objective of the QC standard, rather than on overly prescriptive supplemental direction.

57. *Are there aspects of the approach described in this concept release that would disproportionately affect smaller firms? If so, which areas, and what steps could the PCAOB consider to mitigate those effects?*

Overly prescriptive requirements, in general, may disproportionately affect smaller firms.

58. Should we have additional, more specific requirements regarding certain components or areas (e.g., governance and leadership) for larger, more complex firms or based on the nature of engagements performed by the firm (e.g., broker and dealer engagements or engagements for issuers in specialized industries)? If so, what should those be?

No. It is important that requirements and application materials be scalable and principles-based. We also recommend giving consideration to providing comprehensive examples of how all of the ISQM 1 components could be applied in smaller firms.