March 16, 2020

By email: comments@pcaobus.org

PCAOB Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket No. 46

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA). This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views and provide input on the Public Company Accounting Oversight Board's (PCAOB or the Board) potential approach to revisions to PCAOB quality control (QC) standards as outlined in its Concept Release. The CAQ is supportive of the Board's efforts to consider revising PCAOB QC standards as a way to strengthen auditing practices and continuously improve audit quality.

A firm's system of quality control is foundational to audit quality. We agree it is appropriate to revise existing PCAOB QC standards, which were originally developed and issued by the AICPA and adopted as interim standards in 2003,[1] to reflect the experience of the Board and its Staff, as well as developments within the profession domestically and internationally.

In addition to providing the following general observations, we have included detailed responses to the Board's questions in the Appendix.

[1] See PCAOB Rule 3400T, *Interim Quality Control Standards*. See also PCAOB Rel. No. 2003-006, *Establishment of Interim Professional Auditing Standards*. The AICPA has subsequently updated their QC standards.

General Observations

1. We support the risk-based approach to quality management outlined in the International Auditing and Assurance Standards Board's (IAASB) proposed *International Standard on Quality Management 1* (ISQM 1) as a basis for a future PCAOB QC standard.

a. It is imperative to have a common framework as a basis for PCAOB QC standards.

Many firms are subject to not only the PCAOB's QC standards but those of the IAASB or national standards that use the IAASB's standards as a base. We agree with the PCAOB's statements that "it would not be practicable to require firms to comply with fundamentally different QC standards" and "unnecessary differences in QC standards could even detract from audit quality by diverting firms' efforts from focusing on matters of fundamental importance to effective QC systems." We therefore support the Board's monitoring of developments by standard setters in other jurisdictions who are contemplating updates to their quality control standards. We believe it is important to promote consistency of the framework of quality control standards and minimize unnecessary differences and incremental effort that do not benefit audit quality. We encourage the PCAOB to continue to consider the IAASB's work as it moves towards the finalization of ISQM 1 and conduct additional outreach, as necessary, on areas of significant change in the final standard that could influence the PCAOB's approach.

b. Proposed ISQM 1 is a robust, comprehensive approach to quality control with significant enhancements.

ISQM 1 as proposed is a robust, risk-based standard representing a substantial change in QC standards compared with current International Standard on Quality Control 1, current PCAOB QC standards, and current AICPA QC standards.

As the Board is aware, proposed ISQM 1 includes many enhancements to existing quality control requirements, including the following:

- The addition of three components to existing PCAOB QC standards. These components are governance and leadership, the firm's risk assessment process, and information and communication. We believe these are significant enhancements that, taken together with the other components, provide a comprehensive framework for a firm's system of quality control.
- A change in focus to a risk-based approach. The additional risk assessment component changes the focus from a rules-based to a risk-based approach to quality management. The shift is intended to support flexibility and scalability for firms to tailor their system of quality management to their specific facts and circumstances, including the particular quality risks the firm may face.
- The expansion of the "human resources" component. The expansion to include technological and intellectual resources represents an acknowledgement that the business ecosystem, including the preparation and audit of financial reporting, is becoming more dependent on technology and data.
- The expansion of the "monitoring" component. This expansion includes monitoring of all aspects of the quality management system (extant quality control standards largely focus

on inspections of completed engagements), and remediation activities, including a requirement to investigate root causes of deficiencies based on risk. These remediation activities are critically important for continuous improvement on a systemic basis.
- A proposed new requirement to perform an annual evaluation of the effectiveness of the system of quality management.
- The consideration of networks in a system of quality management.

The application material included in proposed ISQM 1 is an integral resource because it provides context relevant to a proper understanding of proposed ISQM 1 and application of its requirements. In our view, this guidance will be very useful in assisting firms in their implementation process, including considering how to appropriately apply the principles underpinning the new quality management framework and consider how best to scale the requirements in the standard. We encourage the Board to determine the nature and extent of implementation guidance that will be needed to support the application of principles-based requirements, leveraging the application material in proposed ISQM 1 as appropriate.

c. Proposed ISQM 1 is a principles-based standard built on an integrated risk-based framework. As a result, minimal incremental or alternative requirements are needed.

With its proposed changes, ISQM 1 provides a comprehensive, risk-based framework, such that territory and firm-specific considerations, including laws and regulations, types of clients served, and organizational structures, can successfully be considered and addressed under the framework, without incremental requirements. As we evaluated the potential incremental or alternative requirements being considered by the Board in the Concept Release, it is our view that, in most cases, the underlying objectives of the Board in considering these incremental requirements already are addressed by proposed ISQM 1. Further, we believe that any additions or changes to the proposed ISQM 1 requirements (that would be the starting point for a future PCAOB QC standard) should be consistent with proposed ISQM 1's principles-based approach and not overly prescriptive such that scalability to a firm's individual facts, circumstances, or structure is not impeded. We note the reference in the Concept Release to the possibility that the PCAOB may consider "incremental or alternative quality objectives or responses, or quality risk factors for firms to take into account." In our view, focusing on quality risk factors for firms to take into account would be preferable to setting out incremental or alternative requirements that may conflict with the principles-based approach in proposed ISQM 1 or not be applicable in all circumstances. We provide further details in our Appendix.

d. It is critical to have a risk-based approach that is scalable.

We support the intent of the Board for future PCAOB QC standards to be scalable. A principle- and risk-based approach is critical to achieve that objective. A one-size fits all approach is not appropriate for the wide array of registered public accounting firms. The landscape of registered public accounting firms is vast with just over 1,860 firms, including US and non-US firms registered with the PCAOB. Only twelve firms provide audit reports for more than 100 issuers.[2] Therefore, while QC standards are important and foundational to audit quality, the size of a firm's client base and the types of engagements it performs vary greatly. A risk-based approach allows for

[2] As of the date of this letter, in accordance with the PCAOB website https://pcaobus.org/Inspections/Pages/InspectedFirms.aspx, twelve firms provide audit reports for more than 100 issuers and are therefore annually inspected.

scalability to all of these firms. Specifically, the requirement in proposed ISQM 1 to identify and assess a firm's unique quality risks, allows for flexibility such that firms can implement appropriate responses. This flexibility can serve to minimize costs and efforts that do not have a commensurate benefit to audit quality.

2. It is important that requirements of future PCAOB QC standards are consistent with a reasonable assurance objective.

We support the objective of current QC standards to provide a firm with reasonable assurance that its personnel comply with professional standards applicable to its accounting and auditing practice. It is not reasonable for a system of quality control to achieve absolute assurance. Instead, a robust monitoring and remediation process can provide a continuous feedback loop to enable firms to make improvements when necessary (e.g., having considered the root cause of issues or other matters that have come to the firm's attention through monitoring). Accordingly, we believe it continues to be appropriate for the objective of proposed ISQM 1 and a future PCAOB QC standard to require the system of quality control to provide reasonable and not absolute assurance. To the extent we believe potential incremental or alternative requirements for a future PCAOB QC standard are unclear regarding such an expectation, we detail our observations in the Appendix.

3. Proposed ISQM 1 is one part of a suite of related auditing and QC standards.

The Concept Release focuses on proposed ISQM 1 and firm-level quality control. Certain potential incremental or alternative requirements proposed in the Concept Release appear to relate to actions and procedures that are expected to be executed at the engagement level. Proposed ISQM 1 provides that the firm is responsible for establishing its system of quality management, which provides the foundation for managing quality at the engagement level, and the engagement partner is responsible for managing and achieving quality at the engagement level. An engagement quality review is a response (or control), among others, that is designed and implemented by a firm to address its assessed quality risks. Although the performance of an engagement quality review is undertaken at the engagement level, it is a response that is performed by the engagement quality reviewer on behalf of the firm.

As the Board moves forward with this project, we believe it is important to take a holistic approach to consider which requirements are appropriate at a firm- or engagement-level, and this may result in the need to review other extant PCAOB standards. For example, the Board may want to consider whether any of the enhancements to proposed ISQM 2, *Engagement Quality Reviews* (ISQM 2), and proposed International Standard on Auditing 220 (Revised), *Quality for an Audit of Financial Statements* (ISA 220) to promote quality at the engagement level would be relevant to include in its standards.

4. We encourage a collaborative approach to successful implementation of a future QC standard.

Many factors are critical to the successful implementation of a future QC standard. Similar to the recent changes to the auditor's report, the evolution of QC standards will require firms to make significant investments, specifically related to documenting their risk assessment process and responses to assessed quality risks, as well as updating firm methodologies, including tools and templates. We believe there is a benefit to using the auditor's reporting model experience as a

model for successful standard-setting and collaborative implementation. For example, the collaborative approach that was invaluable and supported firms in successfully implementing that standard included: the CAQ piloted requirements related to the auditor's reporting model with certain of its member firms to provide feedback on how the concepts in the new standard translated into actual practice, time provided for firms to perform a "dry run" of the requirements prior to the effective date, and the process undertaken by the PCAOB to review firm methodology and perform targeted inspections of audit reports as of June 30, 2019 issuers (initial adopters) and provide feedback to firms.[3]

As with other new and amended standards, a robust post-implementation review is important to understand if a new QC standard is achieving its objectives.

As we commented to the IAASB, firms will require sufficient time for thoughtful and careful implementation of proposed ISQM 1. Being thoughtful and deliberate about implementation and execution is critical to generating the intended transformational benefits of an enhanced QC standard.[4]

Certain aspects of the proposal may take more time during implementation. These aspects include:

- Making necessary organizational changes given the decentralization and disparate ownership structure inherent in some firms;
- Designing, implementing, and refining the risk assessment approach;
- Designing, implementing, and refining the information and communication requirements;
- Designing, piloting, implementing, and refining an enhanced monitoring and remediation process; and
- Designing, piloting, implementing, and refining the overall evaluation of the system of quality management. This requirement in particular will require time for firms to test new processes.

We point this out to the Board because many registered public accounting firms will not be required to adopt ISQM 1 and therefore may not be adapting their QC systems toward compliance with that proposed standard. While some firms have evolved their systems of quality control over time, we have received feedback from our member firms that such evolution is wide-ranging. However, as noted above, given an appropriate amount of time to implement, we believe that a risk-based approach to quality control will benefit registered public accounting firms.

5. <u>There is diversity in practice related to use and calculation of performance measures.</u>

As we detail in our Appendix, we are concerned about requiring firms to use specific performance measures in a future PCAOB QC standard. More research may provide insight into whether quantifiable or qualitative performance measures are indicators of audit quality. Although we support the principle of firms using quantifiable performance measures to monitor audit quality, we do not believe prescribed quantifiable performance measures are necessary or practicable for

[3] PCAOB Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

[4] See CAQ comment letter to the IAASB re proposed ISQM 1 https://www.thecaq.org/wp-content/uploads/2019/07/caq_comment_iaasb_isqm_2019-07.pdf, July 1, 2019.

firms of all types and sizes. We believe that each firm should determine the best measurement to assess whether they are achieving a quality objective and addressing its related risk factors. While there may be commonality between some measures, different firms may choose to monitor different measures, depending on their unique quality risks and responses. Additionally, qualitative measures are often important to forming a view as to audit quality and a focus on quantifiable measures only could have unintended consequences. In the meantime, firms should be able to use their discretion as to what measures are part of their overall system of quality control in light of their assessed risks and the responses they have developed. The CAQ supports a voluntary and flexible approach to transparency and encourages its member firms to disclose insights related to monitoring audit quality.[5]

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The CAQ appreciates the opportunity to comment on the potential approach to revisions to PCAOB QC standards, as outlined in the Board's Concept Release, and we look forward to future participation in the Board's standard-setting process. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter.

Sincerely,

Catherine Ide
Senior Managing Director of Professional Practice and Member Services
Center for Audit Quality

cc:

PCAOB
William D. Duhnke III, Chairman
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Duane M. DesParte, Board Member
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SEC
Sagar Teotia, Chief Accountant
Marc A. Panucci, Deputy Chief Accountant

IAASB
Thomas R. Seidenstein, Chairman

[5] The CAQ published its *Audit Quality Disclosure Framework* in January 2019, a voluntary, flexible approach to encourage comparable and consistent disclosure of how firms monitor audit quality.

Appendix

Q. 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?*

We support the Board's efforts to revise current PCAOB QC standards to address developments in audit practices regarding firms' QC systems using a risk-based approach.

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

We support the use of proposed ISQM 1 as the basis for a future PCAOB QC standard for the reasons explained in our letter. We agree with the PCAOB's statements that "it would not be practicable to require firms to comply with fundamentally different QC standards" and "unnecessary differences in QC standards could even detract from audit quality by diverting firms' efforts from focusing on matters of fundamental importance to effective QC systems."

Q. 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?*

There may be reasons for differences between proposed ISQM 1 and a future PCAOB QC standard, based on unique US market conditions. However, we believe these differences would be minimal because a firm's risk assessment process should take into account the legal and regulatory framework in which it operates. We encourage the Board to minimize unnecessary differences and maintain an appropriate integrated, principle- and risk-based approach. This is particularly relevant for non-US firms who are subject to PCAOB standards as well as ISQM 1 and national law or regulation. For all firms, undue prescription in the PCAOB's QC standards could result in increased litigation exposure, conflicts with national law or regulation, including confidentiality restrictions, or other unintended consequences.

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

The risk-based approach in proposed ISQM 1 provides flexibility for firms to appropriately respond to the developments affecting audit practices. The iterative nature of the proposed ISQM 1 risk assessment process requires that the firm consider changes in the nature and circumstances of the firm or its engagements, which includes current and future developments affecting audit practices and how firms' systems of quality control have been adapted to respond to such changes.

Q. 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?*

We believe there is wide variation among audit firms' systems of quality control. Some network firms have begun to evaluate and assess re-designing their system of quality management of the affiliated firms in the network as a result of proposed ISQM 1. Changes relate to:

- consideration of assigning operational responsibilities to comply with governance and leadership component requirements;
- designing a globally consistent risk assessment process enabled by a global technology solution for implementation and operation;
- re-designing a global monitoring solution enabled by technology; and
- updating processes to comply with new proposed requirements for an annual evaluation.

These are very significant efforts that include resources in the various functions, service lines and all the affiliated firms of the network.

Many registered public accounting firms will not be required to adopt ISQM 1 and therefore may not be adapting their QC systems toward compliance with that proposed standard. While some firms have evolved their systems of quality control over time, we have received feedback from our member firms that such evolution is wide-ranging. Therefore, the starting point for implementation of a future PCAOB QC standard likely will vary across the wide range of registered public accounting firms.

Q. 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.*

As it contemplates revisions to a future PCAOB QC standard, the Board should concurrently consider an economic analysis of its requirements. Due to the varying nature and client base of the more than 1,860 registered firms, it is important to avoid costly requirements that do not have a commensurate benefit to audit quality.

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

We believe current PCAOB QC standards need to be revised and support an approach that has proposed ISQM 1 as a starting point.

The flexibility provided to apply proposed ISQM 1 is critically important to its scalability, in particular the acknowledgment that a firm may use different terminology or frameworks to describe the components of its system of quality management. Each firm may structure their system differently to effectively manage and support quality based on the nature and circumstances of the firm. Similar to our feedback to the IAASB, should the flexibility provided in proposed ISQM 1 differ in a PCAOB standard, the scalability could be negatively impacted.

Q. 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?*

The objective of a quality management system provided in proposed ISQM 1 is an appropriate objective for a QC system under PCAOB standards. We do not believe there are additional objectives that a quality control system should achieve.

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

Adding the proposed ISQM 1 components such as governance and leadership, the firm's risk assessment process, and information and communication are significant enhancements to existing PCAOB QC standards. The efficacy of potential revisions in a future PCAOB QC standard will depend upon the nature of proposed requirements. These potential revisions could lead to a focus on systems of quality control that are more tailored to the nature and circumstances of each firm, which should lead to improved audit quality.

Q. 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?*

Proposed ISQM 1 includes many new requirements, such as investigating the root cause of deficiencies to enable firms to take actions to mitigate future audit deficiencies, that are enhancements to existing PCAOB QC standards. QC standards are systemic in nature and inherently enhance firms' ability to detect and deter audit deficiencies. Of course, no system of quality control will prevent all audit deficiencies with absolute assurance, and we believe any QC standard should reflect this. As noted in our letter, the Board's focus in the future on possible enhancements to engagement quality reviewer requirements and engagement-level requirements similar to the IAASB's other current projects (proposed ISQM 2 and proposed ISA 220) may be necessary to complement the changes to the firm's system of quality control.

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

The principles of a system of quality control should be the same for all engagements and acknowledge the ability of firms to tailor elements of its system of quality control to address specified risks of the engagements it performs. A risk-based approach allows for quality risks unique to such engagements to be identified and assessed. We do not believe a future PCAOB QC standard needs to have additional or alternative requirements for firms that audit brokers and dealers.

As it relates to broker-dealers subject to the PCAOB's inspection authority, we would expect that design attributes of responses would consider the risk characteristics of such entities, including: (1) type - clearing broker-dealers (responsible for protection of customer cash and/or securities) vs. introducing broker dealers (claim exemption from customer protection rules); and (2) nature of customer-related activities (clearing of retail customer account activity, margin lending, etc.). We would expect such risks would be largely consistent with the risks considered by the PCAOB when it developed its current attestation standards for broker-dealers (AT1 and AT2).

Q. 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?*

Implementing ISQM 1 as proposed is expected to be a significant effort and cost for firms. Implementing and monitoring any incremental or alternative requirements in a PCAOB standard

would require additional effort, including among other things, documentation, information technology, resources, training, and revised methodologies including tools and templates. As noted above in our letter, firms will need sufficient time to implement a future QC standard successfully. As we describe herein, prescriptive requirements may not be cost-effective as certain requirements may not benefit all firms. Therefore, a risk-based approach is important to allow for scalability and avoid unnecessary costs and effort.

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

We support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to firm governance and leadership is appropriate. We do not believe changes to the approach are necessary for this component.

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

We do not believe an incremental provision requiring firms to "make explicit assignments of supervisory responsibilities at successive levels within the firm up to a firm's chief executive officer or equivalent" is necessary. As we noted in our comment letter to the Board in response to *Concept Release on Possible Rulemaking Approaches to Complement Application of Section 105(c)(6) of the Sarbanes-Oxley Act of 2002, PCAOB Rulemaking Docket Matter No. 31*, we continue to urge the proposal of a rule that, in general terms, would require assignment of responsibilities and documentation of those assignments. Given the diversity of the firms and differences in operating policies and procedures, sufficient flexibility in the assignment of supervisory responsibilities is necessary to allow appropriate and practical implementation by firms of all sizes, structures and complexity.[6]

We believe the proposed requirements of ISQM 1 are sufficient to promote clarity within a firm about where significant supervisory responsibilities rest.[7] Allowing the individual responsible for the system of quality control the flexibility to implement and operationalize an appropriate supervisory structure will enable the QC standard to be scalable and achieve the desired outcome of accountability.

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

We do not consider any incremental requirements necessary. We are of the view that proposed ISQM 1 already sets out the principles related to assigning ultimate responsibility and accountability for the QC system to the firm's chief executive officer or firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). Proposed ISQM 1 also would require the firm to assign an individual who has the appropriate experience and knowledge to fulfill the assigned responsibility.

[6] See CAQ comment letter https://pcaobus.org/Rulemaking/Docket031/015_CAQ.pdf (November 12, 2010).

[7] Proposed ISQM 1 paragraph 25 and related paragraphs.

Q. 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?*

We agree that allocation and sufficiency of financial resources are important to audit quality and believe this is sufficiently addressed in proposed ISQM 1, which requires the firm to establish and achieve the following objective: "The firm plans for its resource needs, including financial resources, and obtains, allocates or assigns 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***" (emphasis added). "In a manner that supports" is consistent with the concept that the allocation of financial resources is sufficient. Sufficiency will vary by firm based on its unique risk assessment. Therefore, we believe the requirement in proposed ISQM 1 supports scalability and greater emphasis is not needed.

Q. 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?*

We do not believe such a provision should be required, as we are concerned this would limit the scalability of a future PCAOB QC standard. Independent oversight may be an appropriate response for some firms based on their risk assessment; however, such a requirement may not be necessary or effective for all firms. Further, independent oversight may take various forms including independent advisors who are not board members.

Q. 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?*

We support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to the firm's risk assessment process is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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?*

We believe principles-based requirements are sufficient to prompt firms to appropriately identify, assess, and respond to risks. As noted in our letter, the Board may want to consider clarifying how the application material related to proposed ISQM 1, and related proposed ISQM 2 and proposed ISA 220 and their respective application material may be considered when implementing a future PCAOB QC standard.

Q. 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 do not believe it is necessary to specify certain quality risks, as quality risks may evolve over time and may vary in their applicability to a particular firm. The PCAOB could consider how best to communicate factors the Board views as important for firms to consider in identifying and assessing quality risks (e.g., within the standard, as implementation materials or through other PCAOB communications).

Q. 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)?*

We are concerned about requiring firms to establish quantifiable performance measures for the achievement of quality objectives in a future PCAOB QC standard. Firm systems vary and track information in different ways using different terminology, systems and processes. Furthermore, quantifiable performance measures for managing the risks to achieving quality objectives also need to be considered with other qualitative factors that could affect audit quality. The quantifiable performance measures may aid in highlighting situations where outliers have been identified and are in need of additional leadership attention. More research may provide insight into what quantifiable or qualitative performance measures are indicators of audit quality.

Q. 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?*

We support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to relevant ethical requirements is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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?*

We encourage the Board to take the opportunity to update and revise the AICPA's SEC Practice Section (SECPS) member requirements as detailed in Appendix L to be principle- and risk-based. We do not believe that PCAOB QC standards should be prescriptive in the manner that Appendix L Independence Quality Controls currently is written.

The Board is considering revising the requirement for professionals to report apparent independence violations to expressly cover *any* independence violations affecting the firm's independence, not just personal independence violations. We agree it is appropriate to expand the reporting requirements to include any *type* of independence violation. It is important for a future PCAOB QC standard to acknowledge that a system of quality control is not designed to achieve absolute assurance and cannot reasonably be expected to prevent or detect every independence violation.

We support replacing the references to a "senior-level" partner to a "qualified individual with appropriate knowledge, skill, ability, capacity, and authority to assume responsibility for independence."

If the member requirements are sufficiently revised to be principle- and risk-based, we support extending detailed requirements for independence quality controls to all firms for the benefit of protection of all investors in registrants.

Q. 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 support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to acceptance and continuance is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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 support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to engagement performance is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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?*

Many aspects of the firm's system of quality control support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams. We do not believe any incremental or alternative requirements are needed that would expressly address firm responsibilities and actions in this area. Based on a firm's risk assessment, certain controls may be implemented (for example, required consultations on certain complex matters) that address significant judgments and allow the firm to evaluate the application of professional skepticism. The engagement quality review is also a quality response intended to address the risk that engagement teams do not exercise appropriate judgment and professional skepticism.

We support the *emphasis* on professional skepticism in paragraph 36(b) of proposed ISQM 1 of the Engagement Performance component. Other components of a firm's system of quality control also contribute to or support the application of professional skepticism. We have encouraged the IAASB in our comment letter to consider emphasizing the exercise of professional skepticism in other components.

Q. 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 the objective of addressing quality controls over a firm's use of other audit participants and agree there may be quality risks associated with the use of component auditors, specialists, and service delivery centers. We believe it is appropriate to include any engagement supervisory responsibilities related to service delivery centers in the final auditing standard related to supervision of audits involving other auditors.

We generally believe the requirements included in proposed ISQM 1 related to networks and service providers are sufficient to address such quality risks. We commented to the IAASB in our comment letter that we encourage the Board to consider providing additional guidance to help firms appropriately scale requirements based on various characteristics of the service provider, including the scope of services it provides. For example, including a discussion about how firms might be expected to apply the requirement to a well-known and reputable service provider compared to a newer, lesser-known service provider could be instructive. Further, it may be challenging for firms to obtain certain information from service providers as described in the application material. We recommended performing outreach to service providers of technological resources to determine what is reasonable for firms to obtain (i.e., operations manual, service organization control reports) and update the standard and implementation materials accordingly.

Q. 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 support the overall objectives of Appendix K and its original intent to enhance the quality of SEC filings by those registrants whose financial statements are audited by non-US registered public accounting firms. Current Appendix K requirements generally focus on the quality of the SEC filing document, the competency of the audit engagement team, and whether any significant auditing, accounting, financial reporting, and independence matters have been addressed appropriately.

We believe it is important that the overall objectives of Appendix K are addressed in future PCAOB QC standards and form part of a registered public accounting firm's system of quality control. A firm's system of quality control in accordance with proposed ISQM 1 would be designed to address different types of engagements as well as quality risks associated with each engagement, regardless of jurisdiction. A future PCAOB QC standard should clarify that when these objectives are satisfied through use of network services (or services of another firm within the network), the responsibility for the audit engagement and related quality controls remains with the firm issuing the report.

If the PCAOB decides to retain Appendix K requirements in some form, we recommend the Board update the guidance for the current environment, eliminate duplication with other quality control

requirements, and take a principles-based, scalable approach that allows audit firms to assess risk and apply judgment across varying jurisdictions for engagements with different risk profiles.

Q. 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?*

We support a proactive approach to help prevent or detect engagement deficiencies, acknowledging that ongoing monitoring takes many forms among firms based on the nature and circumstances of each firm and the engagements it performs.

As noted in our response to Question 21, we are concerned about requiring firms to adopt engagement monitoring activities that rely on specific quantifiable performance measures.

Monitoring reviews of in-process engagements is one of many tools available to firms to monitor the system of quality control. We are not supportive of requiring specific monitoring activities for all firms and all engagements. Requirements that are prescriptive are not consistent with a risk-based approach that provides sufficient flexibility. Further, such prescriptive requirements may not be as effective, as monitoring mechanisms continue to evolve.

In addition to monitoring controls, requirements of PCAOB Auditing Standard 1220, *Engagement Quality Review*, provide an appropriate evaluation of the significant judgments made by the engagement team prior to report issuance.

Q. 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?

The principles-based approach underpinning a firm's risk assessment process in accordance with proposed ISQM 1 should take into account the legal and regulatory framework in which it operates (including auditor confidentiality obligations), resulting in a firm setting out appropriate responses to these types of risks (e.g., audit methodology, required consultation policies, and other potential actions by engagement teams and at the firm level). Accordingly, we believe that requirements in a future PCAOB QC standard to expressly address compliance with the auditor responsibilities under Section 10A of the Exchange Act would not be necessary.

Q. 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 support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to resources is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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?*

There are many important contributors to an individual's overall competence and capability to consistently perform quality audits, including technical training, professional education, continuing professional development, work experience, and coaching. The requirements of proposed ISQM 1 provide for a framework to achieve the broad objective of developing and maintaining appropriate competence and capabilities to perform quality audits.

We support the need for effective technical training due to the rigorous requirements of professional standards. It is appropriate for future PCAOB QC standards to require at least annually training on professional standards and SEC requirements for *certain* firm personnel who participate in engagements under PCAOB standards or are assigned to QC roles that relate to compliance with professional standards and SEC requirements. We believe it may be appropriate to tailor these requirements with a focus on those in a supervisory role. For example, if a staff spends a de minimis number of hours supporting an engagement performed in accordance with PCAOB standards with appropriate supervision, it may be acceptable for that staff person to be exempt from certain training requirements.

We do not support prescriptive requirements related to industry training. This is because not all businesses clearly fall within a particular industry. Further, a properly implemented system of quality control could identify industry-specific considerations as a quality risk and an appropriate response can address the need for specific training. There are also other mechanisms a firm can employ to ensure the appropriate industry expertise is brought to an engagement where it is necessary to do so, including assignment of the engagement leader, engagement quality reviewer, and use of specialists.

Q. 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 that consideration of the competencies of an engagement partner is an important element of the QC standards. We are supportive of the current requirements in PCAOB QC standards and do not believe other competencies are necessary.

Q. 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 any additional competencies are needed beyond current PCAOB QC standards and proposed ISQM 1.

Q. 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 agree a future PCAOB QC standard should address emerging technology used in obtaining or evaluating audit evidence, given the increasing importance and evolving nature of the use of technology in performing audits. As the Board contemplates potential revisions, we encourage consideration of relevant factors related to technology the engagement partner may need to address. For example, a firm may have a central process and firm-level subject-matter experts who understand the relevant technology. In this situation, we believe it would be appropriate for an engagement partner to rely on that central process, provided appropriate controls operate at this central level. Such reliance also may be dependent on the type of technology used, with specific consideration given to whether its functionality and outputs can be customized by the engagement team.

We agree consideration of data security and detection of unauthorized access to technology and data is important. We caution the use of terms such as "prevent unauthorized access" because in the world of cybersecurity, it is often not possible to prevent all breaches. In our view, including controls to identify and mitigate such risks of unauthorized access is appropriate.

Q. 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?*

We agree having sufficient time is important. We do not believe it is necessary to place greater emphasis on this in a future PCAOB QC standard, as the concept is already sufficiently contemplated in proposed ISQM 1.

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

We agree a firm's incentive system, including compensation, can impact audit quality. We consider the proposed ISQM 1 paragraph 38(d) requirement to establish and achieve the objective that, *Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and* ***are held accountable through timely evaluations, compensation, promotion and other incentives****,* to be sufficient.[8]

Q. 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 support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to information and communication is appropriate. We do not believe changes to the approach are necessary for this component.

[8] See also proposed ISQM 1 paragraphs A122 and A123.

Q. 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)?*

We do not believe a future PCAOB QC standard should require public disclosures by firms about their QC systems. While the CAQ advocates for transparency in general, we support a voluntary and flexible approach as a market-driven solution to addressing stakeholder needs. Today, many firms voluntarily tell their story in their audit quality reports about how they monitor audit quality based on their consideration of the benefit to their stakeholders. In addition, firms comply with certain regulatory requirements outside the US to provide transparency reports.

Q. 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 support a risk-based approach to quality control outlined in proposed ISQM 1 as a basis for a future PCAOB QC standard. The approach to the monitoring and remediation process is appropriate. We do not believe changes to the approach are necessary for this component.

Q. 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?*

The Board points out in the Concept Release that the Sarbanes-Oxley Act provides an incentive but not an obligation to remediate PCAOB inspection findings related to a firm's system of quality control. We believe the requirements of proposed ISQM 1 appropriately address the need to take remedial actions and will prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities. We believe the process of monitoring as required by proposed ISQM 1 will create an appropriate feedback loop. While no system of quality control can prevent all future engagement deficiencies, a well-designed and implemented system of quality control will strengthen auditing and assurance practices and continuously improve audit quality.

Q. 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?*

With regards to evaluating deficiencies, we commented to the IAASB our concern that proposed ISQM 1 is unclear as to how to evaluate deficiencies in determining whether the system of quality management provides reasonable assurance that the objectives of the standard have been achieved. While we believe it is appropriate for firms to apply professional judgment in reaching an overall determination, additional guidance such as a principles-based evaluation framework could promote consistency in application while maintaining scalability.

In addition, more direction regarding appropriate root cause analysis and remediation of QC deficiencies may be useful to promote consistency in application. While guidance likely will not address all possible facts and circumstances, examples of the Board's expectations regarding

remediation based on their experience and best practices related to root cause analysis (including how this could be scalable) may be helpful to firms who have not yet implemented such activities.

Q. 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?*

As we noted in our comment letter to the IAASB related to proposed ISQM 1, inspecting completed engagements is one of many tools available to firms to monitor the system of quality management. We acknowledge the most recent draft of proposed ISQM 1 paragraph 45 retains the requirement to inspect completed engagements.[9] We also acknowledge the benefit of the internal inspection process to inform a firm about audit quality events, both positive and negative, that drive future enhancements and changes to the audit process. However, because the requirement to inspect completed engagements is prescriptive, it could dissuade firms from evolving to enhanced proactive techniques for monitoring. As such, we support the revisions to the application material of proposed ISQM 1 intended to improve the focus on the selection of completed engagements to inspect based on risk.

Q. 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?*

We do not believe any selection criteria for inspections of completed engagements, including specific minimum or cyclical thresholds or random selection, should be included in a future PCAOB QC standard. Such requirements would be overly prescriptive, impede scalability, and may not be sufficiently tailored to the firm's risks. Firms should develop internal inspection criteria based on risk.

Q. 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?*

We are supportive of the requirement included in proposed ISQM 1 for a firm to perform an annual evaluation of their QC system. As we noted in our comment letter to the IAASB, we believe the annual evaluation should be "as of" a specified date and not for a specific period ended.

Q. 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)?*

We do not support a requirement to report to the Board on a firm's annual evaluation of QC system effectiveness. We believe as part of proposed ISQM 1, a firm would be required to make an

[9] IAASB Board Meeting Materials (March 16-20, 2020), Agenda Item 4.

annual evaluation, the documentation of which would be available to the PCAOB in connection with its inspection process. It is unclear what the objective or benefit of additional reporting to the Board would be, and the unintended consequences that could be created. In our view, there are associated risks with public reporting that are complicated by the current inspection process (and the timing under which it is conducted).

As previously described, we do not support requiring disclosure of performance measures given the diversity in practice as well as a need for further research to determine causation.

We are not supportive of firm reports, should they be required, being made publicly available. Public disclosure may not be consistent with Rule 4009, *Firm Response to Quality Control Defects.* As we commented to the IAASB, we support the principle that the firm should have the flexibility to determine when it is appropriate to communicate with external parties. This allows firms to provide context related to their QC system and its interaction with PCAOB Part II inspection reports, if applicable. The needs of external parties vary, and firms should have the ability to tailor communications based on the demand of such parties.

Q. 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?*

We support the requirement in proposed ISQM 1 that *the individual(s) assigned ultimate responsibility and accountability for the QC system* evaluates whether the QC system provides reasonable assurance that the objectives of proposed ISQM 1 have been achieved. We also believe this evaluation should be documented. We do not think any incremental requirements are necessary.

Q. 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?*

The Concept Release notes the Board is considering "requiring QC documentation to be sufficient to enable an experienced auditor that understands QC systems, but has no experience with the design and implementation of the firm's QC system, to understand the basis for the firm's assessment of the effectiveness of the QC system, including evaluation and remediation of QC deficiencies." It is unclear what incremental documentation beyond proposed ISQM 1 requirements would be necessary to enable an experienced auditor to understand the firm's QC system. We agree with proposed ISQM 1 paragraph A211 which states, "Documentation provides evidence that the firm complies with this ISQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the retention of organizational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this ISQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management." This underlying concept provides sufficient flexibility. We believe a future PCAOB QC standard should embrace this approach.

Q. 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 a firm should establish a period of time for the retention of documentation for the system of quality control that is sufficient to permit those performing monitoring procedures to evaluate the firm's system of quality control, or for a longer period if required by law or regulation, consistent with proposed ISQM 1 paragraph 69. As noted in the Concept Release, other documentation requirements exist and the proposed requirements of ISQM 1 provides for such compliance.

Q. 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?*

We believe addressing networks is important to achieving the objectives of proposed ISQM 1 and a future PCAOB QC standard and we support the proposed ISQM 1 requirements. We expect firms will develop policies and procedures to comply with these requirements that may include obtaining information at an aggregate level. We do not believe any additional documentation requirements are necessary.

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

We do not believe a future PCAOB QC standard should specify roles and responsibilities other than the individual(s) responsible for independence quality controls (see response to Questions 22 and 52) due to the complexity and importance of independence rules. Prescribing specific roles and responsibilities may limit the scalability of a future PCAOB QC standard. As long as a firm meets the objectives and requirements of the PCAOB QC standard, it would be beneficial for firms to have flexibility in establishing roles and responsibilities within their organization.

In addition, we encourage the Board to consider whether *all* firm personnel should be responsible for adhering to appropriate standards of conduct, communicating and appropriately responding to information in support of the effective operation of the firm's QC system or the performance of engagements in accordance with PCAOB auditing standards, maintaining the competencies needed to fulfill the roles and responsibilities to which they are assigned, and properly supervising others, in roles that involve supervision to support the firm's QC system. Firms have various organizational structures and many firm personnel who do not participate in PCAOB audits. Therefore, it may be appropriate to modify the scope of such responsibilities to *certain* firm personnel.

Q. 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 generally do not believe any further roles and responsibilities should be included in a future PCAOB QC standard as these requirements are broad and firms may operationalize oversight of compliance differently based on a variety of factors.

Consistent with our comment letter to the IAASB related to proposed ISQM 1, we support the proposed requirement in ISQM 1 to assign responsibility for compliance with independence requirements to an individual(s). While assigning responsibility for compliance with independence requirements to an individual(s) is arguably prescriptive, we recognize the importance and complexity of independence rules. Further, we believe this is already occurring in practice. We acknowledge that proposed ISQM 1 also mentions certain roles that have operational responsibility.

Q. 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?*

The concepts of AS 2901, *Consideration of Omitted Procedures After the Report Date*, are important to retain and no amendments to AS 2901 are needed. A risk-based, effective system of quality control provides reasonable assurance that 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 engagement reports issued by the firm or engagement partners are appropriate in the circumstances.[10] We would expect that if a firm's system of quality control does not appropriately comply with AS 2901, a root cause analysis would identify remedial actions needed (e.g., additional training).

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

The concepts included in AS 1110, *Relationship of Auditing Standards to Quality Control Standards* (AS 1110), are important to retain. In particular, the relationship between auditing standards and quality control standards and the notion that 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 should be preserved.[11]

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

The Board's current project related to *Supervision of Audits Involving Other Auditors* is an example of how a holistic approach is important to consider when determining the appropriate requirements at an engagement level versus at the firm level. We included such feedback in our previous comment letters regarding the proposed amendments related to this project.[12]

[10] Consistent with proposed ISQM 1 paragraph 18.
[11] AS 1110.03
[12] CAQ comment letter dated November 15, 2017 and CAQ comment letter dated July 29, 2016.

Q. 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?*

As discussed throughout this letter, we agree it is important that a future principle- and risk-based PCAOB QC standard is applicable to all firms and scalable based on their risks, size, complexity and the nature of their engagements. As a result, we encourage the Board to consider further outreach such as roundtables with leaders of firms of varying size.

Q. 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?*

As we have noted in response to certain questions, overly prescriptive requirements in general may disproportionately affect smaller firms and may have an adverse effect on firms' risk assessment process.

Q. 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?*

We discourage the Board from adding more specific requirements regarding certain components for larger, more complex firms. It may be challenging for firms – as they grow in size or change their practice – to comply with changing requirements. This complexity could have a negative impact on audit quality. A principle- and risk-based approach that firms of different sizes can implement allows for appropriate flexibility and scalability.