



## CONCEPT RELEASE: POTENTIAL APPROACH TO REVISIONS TO THE PCAOB QUALITY CONTROL STANDARDS

Issued 16 March 2020

ICAEW welcomes the opportunity to comment on the *Concept Release: Potential approach to revisions to the PCAOB Quality Control Standards* published by PCAOB on 17 December 2019 (PCAOB Rulemaking Docket No. 046), a copy of which is available from this [link](#).

We agree that the PCAOB Quality Control standards are in need of modernisation and support the use of ISQM 1 as the basis for a future PCAOB QC standard.

Proposed ISQM 1 takes a risk-based approach, which we welcome, however, we raised a number of concerns with IAASB about the length, complexity and scalability of proposed ISQM 1, and the absence of digitisation and would welcome proposals from PCAOB that helped to address these concerns.

We consider it important that a future PCAOB QC standard only includes those differences to ISQM 1 that are genuinely necessary to align with the US regulatory environment. The approach in proposed ISQM 1 already achieves the overarching objectives in many of the areas identified in the concept release and the inclusion of a significant number of incremental and alternative requirements in a future PCAOB standard risks causing confusion and ultimately undermining audit quality – as well as making the standard less scalable.

A future-proofed approach to dealing with technological developments in the standard would allow for flexibility when applying the revised standard to new auditing developments, keeping it fit for purpose over the long-term.

This response of 16 March 2020 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the Faculty is responsible for audit and assurance submissions on behalf of ICAEW. The Faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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## KEY POINTS

### WELCOME FOR THE CONCEPT RELEASE

1. We welcome this concept release. Proposals to revise PCAOB Quality Control standards will have an impact on ICAEW's member firms that are PCAOB registered and therefore required to follow PCAOB standards and so are very relevant to us.
2. We agree that the PCAOB Quality Control standards are in need of modernisation, given the substantial changes to the operating environment and auditing practices since they were adopted in 2003.
3. Quality management underpins audit quality so it is important that PCAOB devotes time to getting this right. Audit quality is also an area of significant focus in a number of different jurisdictions, including Australia, the Netherlands and the UK, and PCAOB should be mindful of these developments when considering revisions to its QC standards.
4. Our key points on the potential approach are set out below and we have grouped our responses to the questions posed. We would be very happy to discuss any of these points further with PCAOB.

### ISQM 1 AS A BASIS FOR A FUTURE PCAOB QC STANDARD

5. We support the use of ISQM 1 as the basis for a future PCAOB QC standard.
6. Proposed ISQM 1 takes a risk-based approach, which we welcome, as it lays the foundations for proportionate and scalable standards on quality management.
7. We did, however, raise a number of concerns with IAASB about proposed ISQM 1. These are set out in **our response** and include concerns about the length, complexity and scalability of the standard and the absence of digitisation. We would therefore welcome any proposals from PCAOB that would help to address these concerns. PCAOB should also ensure it considers the further changes being made to ISQM 1 and how they might impact the development of a future PCAOB QC standard.

### INCREMENTAL AND ALTERNATIVE REQUIREMENTS

8. We consider it important that a future PCAOB QC standard only includes those differences to ISQM 1 that are genuinely necessary to align with the US regulatory environment. We urge PCAOB to rethink the extent of alternative or incremental requirements needed here. By PCAOB's own admission, the reasons for starting with ISQM 1 in the first place are because of the risk-based approach taken and the view that it would be impractical to require firms to comply with fundamentally different QC systems; that unnecessary differences could actually detract from audit quality by causing confusion. However, if PCAOB is too free-handed in its approach to what additional requirements are necessary in the US environment then it is likely that this will simply cancel out the benefits of starting with ISQM 1 in the first place, and might, therefore undermine audit quality.
9. As noted in our answers below to the questions posed, we consider that the approach in proposed ISQM 1 already achieves the overarching objectives in many of the areas identified in the concept release and that including the incremental and alternative requirements outlined is likely to make the standard less flexible to apply and less scalable. Proposed ISQM 1 is already significantly more granular – and longer – than ISQC 1 is. If PCAOB intends to introduce further direction, adding more risks and requirements into a future PCAOB QC standard, this will inevitably make the standard even longer, more granular in detail and less scalable for smaller firms.
10. In considering what incremental requirements are necessary in a future PCAOB QC standard, PCAOB should avoid simply repeating requirements that are already contained in underlying auditing standards. For example, the PCAOB QC standard would require firms to comply with the auditor independence standards that are relevant to the engagement but it should not be necessary to list out what the specific independence rules are, ie, SEC and

PCAOB standards. If there is too much specificity on the ethical requirements then it risks becoming quickly out-of-date.

11. We note that AICPA is also intending to revise its QC standards, with an exposure draft anticipated in 2021 and these are likely to be based on ISQM 1. If firms were required to adopt fundamentally different QC systems this is likely to cause confusion and be a potential barrier to growth for entities who may be seeking PCAOB registration.

## ADDRESSING EMERGING ISSUES AND TECHNOLOGICAL DEVELOPMENTS

12. We believe that a more future-proofed approach to a PCAOB QC standard would lead to a leaner standard with better-focussed granular detail and requirements. It would also allow greater flexibility when applying the revised standard to new auditing developments, technology-based or otherwise and will therefore ensure that the standard remains fit for purpose over the long-term, and scalable.
13. We welcome the fact that the concept release raises the issue of the expanding and evolving use of technological developments. In recent responses to IAASB we have raised concerns about the failure of standards to appropriately address technological developments. We believe that the lack of acknowledgement of technological developments in standards has inhibited their development as some regulators take a narrow view of their validity where there is no reference to these developments in standards. In tackling this issue a future PCAOB QC standard will need an appropriate balance here. This is to avoid, on the one hand, disagreements between regulators and audit firms and, as a result, impediments to technological developments in firms, and on the other, the risk that the standard will quickly become dated as technologies evolve. Flexible and future-proofed PCAOB QC standards should reflect that technological developments encompass both technologies that aid a firm's quality control, and audit technologies which firms need to demonstrate quality control over.

## ANSWERS TO SPECIFIC QUESTIONS

### INTRODUCTION

***Question 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?***

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

***Question 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?***

14. We agree that there is a need to revise the PCAOB Quality Control standards as there have been substantial changes to the operating environment and auditing practices since their adoption in 2003.
15. We are supportive of the use of ISQM 1 as the basis for a future PCAOB QC standard. Proposed ISQM 1 takes a risk-based approach, which we welcome, as it lays the foundations for proportionate and scalable standards on quality management.
16. We did, however, raise a number of concerns with IAASB about proposed ISQM 1. These are set out in **our response** and include concerns about the length, complexity and scalability of the standard and the absence of digitisation. We would therefore welcome proposals from PCAOB that helped to address these concerns. PCAOB should also ensure it considers the further changes that are being made to ISQM 1 and how they might impact the development of a future PCAOB QC standard.
17. We consider it important that a future PCAOB QC standard only includes those differences to ISQM 1 that are genuinely necessary to align with the US regulatory environment. We urge PCAOB to rethink the extent of alternative or incremental requirements needed as we

consider that the focussed approach in proposed ISQM 1 already achieves the overarching objectives in many of the areas in the concept release. We highlight these areas in our response below. The approach taken in ISQM1 should be sufficiently flexible to operate in any regulatory environment.

18. We note that AICPA is also intending to revise its QC standards, with an exposure draft anticipated in 2021 and these are likely to be based on ISQM 1. If firms were required to adopt fundamentally different QC systems this is likely to cause confusion and be a potential barrier to growth for entities who may be seeking PCAOB registration.
19. We believe that a more future-proofed approach to a PCAOB QC standard would lead to a leaner standard with better-focussed granular detail and requirements, and allow greater flexibility when applying the revised standard to new auditing developments, technology-based or otherwise and will therefore ensure that the standard remains fit for purpose over the long-term.
20. Such an approach in a future PCAOB QC standard will also ensure that the standard is scalable. Too great a focus on providing additional direction, risks or requirements is likely to have a detrimental impact on how the standard may be scaled for smaller firms who may be required to apply both ISQM 1 and the PCAOB standard. This could also result in a checklist approach to applying the standard, rather than consideration of the principles underpinning the requirements.

## BACKGROUND AND CONSIDERATIONS FOR POTENTIAL REVISIONS TO QC STANDARDS

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

***Question 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?***

***Question 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***

21. As noted above, developments in audit practice since the extant PCAOB standards were adopted have been substantial, particularly around the use of technology. In recent responses to IAASB we have raised concerns about the failure of IAASB standards to appropriately address technological developments. We believe that the lack of acknowledgement of technological developments in standards has inhibited their development as some regulators take a narrow view of their validity where there is no reference in standards. We therefore welcome the fact that the concept release addresses the issue of the expanding and evolving use of technological developments. In tackling this issue in a future PCAOB QC standard we believe that PCAOB will need to find an appropriate balance here. This is to avoid, on the one hand, disagreements between regulators and audit firms and potential impediments to technological developments in firms, and on the other, the risk that the standard will quickly become dated as technologies evolve. Flexible and future-proofed PCAOB QC standards should reflect that technological developments encompass both technologies that aid a firm's quality control, and audit technologies which firms need to demonstrate quality control over.

## POTENTIAL STANDARD-SETTING APPROACH BASED ON PROPOSED ISQM 1

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

**Question 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?**

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

**Question 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?**

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

22. We consider that the approach to quality control standards described in this concept release is preferable to the current PCAOB Quality Control standards and that the objective in proposed ISQM 1 is appropriate for a QC system under PCAOB standards.
23. As noted in our response above, we would urge PCAOB to restrict additional requirements to those strictly necessary to address differences in the US regulatory environment. The approach taken in ISQM 1 should be sufficiently flexible to operate in any regulatory environment.
24. We believe that emerging risks, which are unlikely to be unique to the US, can be more effectively dealt with by a focussed risk-based approach in the standard rather than through the introduction of prescriptive rules.
25. We have no comments on the requirements for firms auditing brokers and dealers.

## SPECIFIC ASPECTS OF A QC SYSTEM AND POTENTIAL CHANGES TO PCAOB STANDARDS

**Question 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?**

26. The driver – and benefit – of having effective integrated QC systems should be audit quality. Consistent application of QC requirements across all audits in network firms is likely to enhance the degree of compliance and therefore quality. There will inevitably be costs associated with firms being required to implement updated quality control standards, however an integrated QC system that is fundamentally based on ISQM 1 but without unnecessary incremental requirements, would be preferable in order to avoid excessive additional costs.
27. The cost of implementing and maintaining an integrated QC system as described in the concept release might be comparable to an audited company going through first-time SOX adoption work and implementing the Committee of Sponsoring Organizations of the Treadway Commission's 2013 Internal Control - Integrated Framework (COSO 2013).
28. To avoid unnecessary costs or unintended consequences, a focus for PCAOB should be on how it can support firms in understanding and implementing the new requirements.

## FIRM GOVERNANCE AND LEADERSHIP

**Question 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?**

29. We support the use of ISQM 1 requirements for firm governance and leadership. We do not consider that any incremental requirements are necessary.

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

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

**Question 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?**

**Question 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?**

30. Proposed ISQM 1 includes a quality objective that the firm has an organisational structure with appropriate assignment of roles, responsibilities and authority. We are not, therefore, convinced that there is a need for a further incremental provision that would require supervisory responsibility to be explicitly assigned up to a particular level of seniority, such as a CEO – or that this would lead to enhanced supervision or audit quality.
31. It is not clear what the intention might be here. Given the multi-disciplinary nature of firms, and the ring-fencing of the audit practice from other parts of a multi-disciplinary firm, which is being considered in some jurisdictions, it is difficult to see how this might work in practice and how such a requirement might be scalable for smaller practices.
32. If the intention of such a requirement is not to encapsulate the CEO role but instead a specific audit leadership role, for example, Head of Audit or a new concept such as a 'Chief Audit Compliance Officer' equivalent, again, more thought is needed on how this might be scalable for smaller firms and it would also be essential to establish what 'leadership' means in this context. Smaller firms will have fewer partners and staff and will therefore be less able to make such explicit assignments across successive levels.
33. Some firms registered for PCAOB audits may only have one or two such audits or may only audit a particular component of a US entity. Clarity would be needed over the extent to which any incremental PCAOB requirements would apply.
34. With regards to question 15, addressing quality considerations when appointing senior leadership is something that firms will already be doing and this would be a focus of most, if not all regulators. Again, we are concerned how such a requirement might impact smaller firms or firms with few PCAOB audits and how the standard might be scaled to address this. It is unclear what the definition of a firm's senior leadership might be.
35. Proposed ISQM 1 already includes quality objectives around the allocation of financial resources and the standard allows for scalability in approach. We do not, therefore, see that there is a need for greater clarity here, albeit, if considered necessary greater emphasis of this could be given in the introduction to a future PCAOB QC standard.
36. We believe that smaller, one-partner practices might struggle with the requirement to have independent oversight functions, such as independent directors. While it might be possible to consider the use of a threshold here, ie. the number of PCAOB audits per partner, this in itself is likely to create practical difficulties. For example, firms might restrict partners to carrying out only two engagements of this nature in order to avoid certain thresholds.

## THE FIRM'S RISK ASSESSMENT PROCESS

**Question 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?**

37. Yes, the use of ISQM 1 is appropriate for the approach to the firm's risk assessment process in a future PCAOB QC standard.

**Question 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?**

**Question 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?**

**Question 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)?**

38. We are not clear on what additional direction would be needed here or which risks PCAOB might wish to specify. The requirements in proposed ISQM 1 already include granular requirements identifying risks and we believe these requirements are sufficient to prompt firms to appropriately identify, assess and respond to risks. We consider that it would be too prescriptive to attempt to specify certain quality risks that must be assessed and responded to by all firms in a future PCAOB QC standard. Also, if certain risks are specified in the standard then firms might conclude that these represent an exhaustive list of all of the risks that they need to consider in this area, which runs contrary to the objectives of a more principles-based standard.
39. In relation to quantifiable performance measures, many of the firms are still considering how best to do this. Determining and quantifying these measures is challenging. It is important to prevent firms from being able to game such measures by including clear qualitative elements to them. The more detailed the measures are, the easier it is likely to be to manipulate them. Bodies such as the Center for Audit Quality (CAQ) and the Accounting and Corporate Regulatory Authority (ACRA) have introduced AQIs. ACRA has recently revised its Audit Quality Indicators (AQI) Disclosure Framework which comprises 8 audit quality indicators to provide relevant and useful information to help Audit Committees in their evaluation of statutory auditors. Use of consistent measures would allow for greater comparability.

## RELEVANT ETHICAL REQUIREMENTS

**Question 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?**

40. We consider that the requirements in proposed ISQM 1 are sufficient for a future PCAOB QC standard.

**Question 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?**

41. Given wide stakeholder interest in audit quality, it seems odd that the extent of quality control procedures required here is dependent on having been a SECPS member firm in 2003 or not. All firms are subject to threats to audit quality, and stakeholders interested in audit quality would expect to see independence quality control requirements that reflect and address current threats to audit quality, rather than requirements which only apply to those that were SECPS member firms in 2003.
42. However, the requirements in a future PCAOB QC standard should be limited to requiring compliance with the relevant ethical framework in the entity's jurisdiction. If there is too much specificity in the future PCAOB QC standard on ethical requirements then it risks becoming

quickly out-of-date. It is also interesting to note that ACRA's AQIs published in 2015 included a requirement on this but removed it from the revised AQI framework that was recently published on the basis that firms are already declaring their independence to their audit clients under relevant professional standards (e.g. ACRA's Code of Professional Conduct and Ethics).

## ACCEPTANCE AND CONTINUANCE OF CLIENTS AND ENGAGEMENTS

**Question 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?**

43. Existing requirements in standards in relation to client acceptance and continuation are already comprehensive and we do not consider there to be a need for additional incremental requirements beyond those in ISQM 1. The consideration of risks associated with the engagement, the identification of matters that could significantly affect the conduct of the engagement and the assessment of whether the firm can develop responses should already be embedded in acceptance and continuation decisions and would not require separate requirements in a QC standard. The other requirements highlighted in the concept release are already set out in other PCAOB standards and rules and are therefore not needed here.
44. A future PCAOB QC standard should not pick up requirements that are already addressed in auditing standards. A mix of ISQM 1 and relevant Auditing Standards are quoted in this section of the concept release and some of this detail is also already articulated in the monitoring section.

## ENGAGEMENT PERFORMANCE

**Question 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?**

45. We agree with the approach of using ISQM 1 as the basis for a future PCAOB QC standard with incremental requirements, but believe that every attempt should be made to minimise the requirements over and above those in ISQM 1, where possible.

**Question 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?**

**Question 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?**

**Question 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?**

**Question 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?***

***Question 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?***

46. In determining what necessary incremental requirements are needed in this area, we believe that the focus of the quality standard should be on how audit firms comply with relevant auditing standards and regulations and how this compliance is monitored, and that any repetition of specific requirements from those standards should be avoided.
47. We do not agree that a future PCAOB QC standard should address the use of other audit participants. This level of granularity is not necessary in a quality management standard. Overall principles within ISQM 1, the existing requirements in auditing standards relating to the use of the work of specialists, in addition to the proposed PCAOB auditing standard, AS 1205 Part of the Audit Performed by Other Independent Auditors should be sufficient to address compliance.
48. With respect to question 28, we believe the removal of the Appendix K requirements for any audits would be a retrograde step since we believe this requirement has a significant impact on the quality of engagements undertaken by audit firms outside the United States. We believe that the concerns here go beyond the fact that more SEC registrants are filing IFRS financial statements as this is only one aspect of the reporting requirement. Equally we believe that Appendix K is an important step in the process of confirming that the audit partner / audit team has the necessary skills and knowledge to perform the engagement and sufficient awareness of the US regulatory environment. If Appendix K was withdrawn, then the benefits gained from Appendix K discussions within firms would be lost.
49. It is, however, odd that the Appendix K requirement is based on whether the firm is a SECPS member or not, as opposed to an assessment of the risk to audit quality. In relation to a possible extension of the Appendix K requirements 'audit' in this context would need a clear definition. For example, clarity would be required around whether 'all audits in which a non-US firm issued an audit report on the financial statements of an issuer' includes audits where the non-US firm is issuing an ISA opinion over the same financial statements of that issuer in the local market. Extension of the Appendix K requirements would have a positive impact on the quality of engagements undertaken, subject to the definition of 'audit' above being clarified.
50. We believe that it would be beneficial for the Appendix K review to be changed from a back-end review of filing documents at the end of the process to a more integrated role from the start of the audit engagement. For example, the Appendix K reviewer could be involved in discussions as to whether the proposed audit partner/audit team had the necessary skills before taking on the engagement, discussing critical aspects of the audit approach with the audit partner, and then discussing/reading critical audit documents. Such documents might include the engagement letter, the schedule of uncorrected misstatements, control deficiency assessments and audit committee communications. Firms may already be doing some of this anyway, and thus go over and above the current requirements, but these could be made into specific requirements. If more specific requirements were added it would be important to distinguish the role of the Appendix K reviewer from that of the EQCR. We would suggest that the focus of additional requirements should be to provide support and direction to the engagement team on US reporting requirements and that the extent of such involvement should depend upon the risk assessment.
51. We consider that requirements in relation to Appendix K should come under 'monitoring' and not engagement performance as the Appendix K reviewer is not part of the engagement team.

52. In relation to the roles of the Appendix K reviewer and the engagement quality control reviewer, there is some debate over whether there should always be a split between the Appendix K reviewer and the EQCR role. Some firms may combine the Appendix K and EQCR roles, particularly at the smaller end of the scale though we consider that the skillset of Appendix K reviewers versus the EQCR is different and therefore it is likely to be rare that one individual will have the necessary skills to execute both roles. Firms are also unlikely to want to limit the EQCR pool to only those that are Appendix K-trained given that typically fewer individuals, especially outside the US possess the necessary skills and experience to effectively execute the Appendix K role.
53. In answer to question 29, while we agree that firms should perform engagement monitoring activities, we believe that the standard should be more principles-based, and should not mandate the use of certain types of activity. We agree however that audit committee communications, including deficiency assessments would be shared. This is one area where it would be beneficial to introduce specific requirements.
54. In relation to auditor's responsibilities under Section 10A of the Exchange Act, we believe that there is no need for a separate requirement here and that the actions of firms could be dealt with through the principle that they should ensure compliance with appropriate laws and regulations.

## RESOURCES

***Question 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?***

55. We agree that the resources component of ISQM 1 is an appropriate basis for the future PCAOB QC standard. We believe, however, that the potential incremental or alternative requirements proposed for the PCAOB standard are not necessary and are overly prescriptive which would impact scalability.
56. The principles in ISQM 1 are clear and firms should be allowed to put in place relevant training to enable them to meet these quality control objectives. Members of professional accountancy organisations are already bound by the requirements of their member body in relation to continuing professional development and it is not necessary to prescribe specific requirements in a quality control standard.

***Question 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?***

***Question 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?***

***Question 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?***

***Question 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?***

***Question 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?**

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

57. Prescriptive requirements concerning the extent of technical training needed may result in firms focusing on compliance with the rules rather than using their judgement as to what is needed for their particular firm.
58. We do not believe that there is a need to address competencies of engagement partners or individuals in engagement or QC roles in a future PCAOB standard, beyond the requirements of ISQM 1.
59. In answer to question 35, we welcome the fact that the concept release raises the issue of the expanding and evolving use of technological developments. In recent responses to IAASB we have raised concerns about the failure of standards to appropriately address technological developments. We believe that the lack of acknowledgement of technological developments in standards has inhibited their development as some regulators will take a narrow view of their validity where there is no reference to these developments in standards. In tackling this issue a future PCAOB QC standard will need an appropriate balance here. This is to avoid, on the one hand, disagreements between regulators and audit firms and, as a result, impediments to technological developments in firms, and on the other, the risk that the standard will quickly become dated as technologies evolve.
60. Also in answer to question 35, about design and implementation controls to prevent unauthorized access to technology and data, we are not clear why a separate requirement is needed here. Is this in relation to the requirements of, for example, the General Data Protection Regulation ("GDPR") legislation in Europe or cyber threats?
61. In answer to question 36, we do not believe that greater emphasis is needed on ensuring that firm personnel in QC and engagement roles have sufficient time to properly carry out their responsibilities. This is a fundamental principle of delivering audit quality and should just be the case of good project management within firms.
62. In answer to question 37 we do not agree that a future PCAOB QC standard should expressly address how the firm's incentive system, including compensation, incorporates quality considerations. This issue is complex and we are unclear what the objective of including this would be here. The correlation between audit quality and incentives is not straightforward as it does not take account of the risk profile of audits.
63. Due to the complexities here, if PCAOB does consider including a requirement in relation to how the firm's incentive system incorporates quality considerations, the standard might have to specify levels of complexity of audit. There may also be marginal cases where two audits of similar quality might receive different inspection scores, or where one audit might have gone either way between two inspection score boundaries.

## INFORMATION AND COMMUNICATION

**Question 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?**

**Question 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)**

64. The approach to information and communication is appropriate but it is not necessary to include incremental or alternative requirements, or additional requirements on public disclosure of QC systems. Any changes should be no more onerous than those in the current requirements.

## THE MONITORING AND REMEDIATION PROCESS

**Question 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?**

65. We support the use of ISQM 1 as the basis for the approach to monitoring in a future PCAOB QC standard.

**Question 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?**

**Question 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?**

**Question 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?**

**Question 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?**

**Question 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?**

**Question 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)?**

**Question 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?**

66. We agree that proposed requirements would likely prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities, and help create an appropriate feedback loop to prevent future engagement deficiencies.

67. In answer to question 42, we consider that these aspects are sufficiently addressed in ISQM 1 and a future PCAOB QC standard does not need to provide additional direction here.

68. In relation to internal inspections we believe that the requirements in ISQM 1 are sufficient to address this. Large firms will already have internal inspections but smaller firms might not have sufficient partners to perform these reviews. External reviews would therefore be needed and ISQM 1 is sufficiently broad to allow for this.

69. We do not agree that a future PCAOB QC standard should establish further requirements for internal inspection selection criteria beyond those already in ISQM 1.

70. We consider that the requirements in ISQM 1 are sufficient to address the need to perform an annual evaluation of the effectiveness of a firm's QC system. ISQM 1 requires this review at least annually, which we agree is appropriate.

71. We do not believe that a future PCAOB QC standard needs to include a specific requirement to report to the Board on the annual evaluation of the effectiveness of a firm's QC system or

for certification to be given by a firm's top leadership. Given that PCAOB registered firms are already subject to PCAOB's inspection regime which includes an assessment of a firm's quality control system, it is unclear why these additional requirements would therefore be necessary.

72. We note that a number of firms, particularly in the US and UK, already prepare transparency reports that address the effectiveness of QC systems and that this level of formalisation and oversight alone ensure that these responsibilities are taken seriously.
73. We are unsure of the extent of this type of reporting across PCAOB registered firms but such an approach may warrant further consideration, along with any impact this might have for smaller firms.

## DOCUMENTATION

**Question 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?**

**Question 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?**

**Question 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?**

74. We consider that the approaches to documentation, and sufficiency and retention periods in ISQM 1 are sufficient.

## ROLES AND RESPONSIBILITIES OF INDIVIDUALS

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

**Question 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?**

75. The future PCAOB QC standard should not specify roles and responsibilities of firm personnel in relation to the firm's QC system. This level of prescription will adversely affect the ability of the standard to be scalable.

## RELATED POTENTIAL CHANGES TO OTHER PCAOB STANDARDS

**Question 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?**

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

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

76. There is a need for greater clarity on what the purpose of the amendments to AS 2901 are and what they are trying to achieve.

77. We are not convinced that AS 1110 is needed because it repeats requirements found elsewhere. It should therefore be rescinded.
78. We are not aware of other PCAOB standards for which substantive changes might be needed to align with a future PCAOB QC standard.

## SCALABILITY

**Question 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?**

**Question 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?**

**Question 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?**

79. We are concerned about the effect the inclusion of incremental or alternative requirements will have on the scalability of the standard, as noted in our response to the questions above. For example, we would encourage greater consideration of how the standard might be scaled in relation to the definitions of senior leadership which would not be a simple fit with smaller practitioners.
80. We also believe that it would be important to consider how the standard might be flexible and scalable to those firms only carrying out component audits.