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By email: comments@pcaobus.org

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

RE: PCAOB Rulemaking Docket No. 46: *Concept Release: Potential Approach to Revisions to PCAOB Quality Control Standards*

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) concept release, *Potential Approach to Revisions to PCAOB Quality Control Standards* (Concept Release). We would like to acknowledge the significant effort and consideration that went into the creation of the Concept Release. We commend the Board for publishing the Concept Release in a format that was easy to follow and for making the matters of importance to the Board clear. We recognize the significance of a firm's system of quality control in ensuring audit quality and agree that it is an appropriate time to revisit the existing PCAOB quality control (QC) standards. The evolution of the auditing environment requires QC standards that are responsive to the current business environment and adaptive to future developments.

Within this letter we have provided observations on predominant themes and have included in the appendix detailed responses to certain questions on which the Board requested feedback.

Consistency with the international quality management standard

As a member firm operating within a global network, we strongly support the Board's initiative to position a future PCAOB QC standard to be as consistent as possible with Proposed International Standard on Quality Management 1 (ISQM 1). Being able to deploy one comprehensive system of quality control across a global network best supports consistent audit quality globally. Requiring firms to comply with multiple quality control standards in various jurisdictions is challenging. While we have included responses to questions within the appendix to reflect our opinions on specific proposed incremental or alternative requirements, we generally believe that the requirements in ISQM 1 are sufficiently principles-based to provide a framework for an effective quality control system.

As described in the Concept Release, it is important for the Board to continue to monitor the changes to ISQM 1 that are currently under consideration as a result of comments received on the ISQM 1 exposure draft. Changes that are currently being deliberated may alter the 'starting point' for the future

PCAOB QC standard. If changes made to ISQM 1 are not considered in the future PCAOB QC standard, it may result in additional implementation effort and practical challenges for firms that are required to comply with both standards.

While the Concept Release specifically includes the requirements outlined in ISQM 1, the application guidance included in ISQM 1 is an integral part of that proposed standard. Incorporating that guidance or addressing the appropriateness of applying it when implementing a future PCAOB QC standard would help drive consistency in interpretation and application and assist firms in the proper design, operation and evaluation of their QC systems.

Evaluation of a system of quality control

Consistent with feedback that KPMG IFRG Limited provided on ISQM 1[1], we believe that both ISQM 1 and the Concept Release could provide greater clarity on the concepts of 'findings' and 'deficiencies'. It is important for a future QC standard to clearly define these terms and provide a principles-based framework for assessment of deficiencies (e.g. how a firm should evaluate the level of severity of deficiencies identified and the impact on the overall evaluation of the reasonable assurance provided by its QC system). In addition, further clarification on how remediation efforts should be considered in the evaluation is important. While we outline our positions on annual evaluations and potential reporting requirements in the appendix, we suggest the approach for the assessment of deficiencies should align with any annual evaluation and reporting requirements that the Board ultimately includes in a future QC standard.

Scalability of a future QC standard

It is important for a future QC standard to provide flexibility to adapt to specific challenges in the profession, advancements in technology, and individual facts and circumstances. The risk assessment process is integral to facilitating adaptability to the changing business environment and a future QC standard should be designed to allow a firm to determine the risks and responses relevant to its practice. To achieve this, a future QC standard should avoid being overly prescriptive in the incremental requirements it adds to ISQM 1. While additional quality objectives and risk considerations may be necessary for firms to be in compliance with PCAOB standards and the unique US regulatory environment, we believe these would be best achieved using a principles-based model such as ISQM 1. However, if the Board believes there are specific responses necessary to achieve quality objectives within certain components that all firms, regardless of size, structure and relative complexity should apply, we encourage the Board to be clear about those expectations by including such relevant minimum requirements in the QC standard.

The role of QC standards and auditing standards

The Concept Release includes many areas where the proposed potential incremental requirements or items over which the Board is contemplating explicit requirements appear to be more appropriate at

[1] See KPMG IFRG Limited July 1, 2019 comment letter response to the IAASB Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1) https://www.ifac.org/system/files/publications/exposure-drafts/comments/KPMGResponsetoED_ProposedInternationalStandardonQualityManagement1_PreviouslyInternationalStandardonQualityControl1_0.pdf

the engagement level (i.e. addressed by the auditing standards instead of included in a future QC standard). A future QC standard should focus on the system of quality control at the firm level while also stressing the importance of the QC and auditing standards working together. ISQM 1 includes this concept in its scope section that outlines the role of various types of standards. It explains that the standards over a firm's system of quality management, the role of the engagement quality reviewer, and the auditing standards all work together to support audit quality. Likewise, paragraph 3 of AS 1110, *Relationship of Auditing Standards to Quality Control Standards*, states that "*auditing standards relate to the conduct of individual audit engagements; quality control standards relate to the conduct of a firm's audit practice as a whole.*" We believe a similar concept should be incorporated into a future PCAOB QC standard.

* * * * *

We appreciate the Board's consideration of our comments and observations in support of revising the quality control standards to enhance audit quality. If you have questions regarding our comments included in this letter, please do not hesitate to contact Matt Doyle at (212) 954-2187 or mrdoyle@kpmg.com.

Sincerely,

KPMG LLP

Appendix

Below are responses to select questions outlined in the Concept Release for which we had specific input, recommendations, or concerns.

Introduction

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 agree that the existing PCAOB QC standards should be revised to address developments in audit practices and provide more definitive direction regarding firms' QC systems. The approach taken by ISQM 1 (including the related application guidance) provides the appropriate framework while allowing for scalability and flexibility so firms can determine the appropriate QC responses based on their own risk assessment. A future PCAOB QC standard should be developed in a way that does not require frequent standards updates and is adaptable as practice evolves and technology changes how firms design and operate their QC systems.

We support using ISQM 1 as the basis for a future PCAOB QC standard. As a global network of member firms, consistency with international standards will enable consistent and effective application across our network member firms and remove the uncertainty of compliance, combined with the additional cost and burden, of adopting two different standards and maintaining an effective QC system.

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

We address potential differences identified between ISQM1 and a future PCAOB QC standard throughout the appendix as they are proposed for each section. While it is appropriate for the Board to provide additional requirements and guidance to address unique US capital market considerations, a future PCAOB QC standard should avoid unnecessary differences from ISQM 1. Additions to ISQM 1 requirements should continue to be principles-based and consistent with the design of ISQM 1, which will enable audit firms to determine the appropriate risks and responses relevant to a firm's specific facts and circumstances.

Potential Standard-Setting Approach Based on Proposed ISQM 1

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

No additional or alternative requirements should be added for firms that audit brokers and dealers. A properly designed and implemented system of quality control under a principles-based standard should be scalable to various firms' structures and composition. The requirements in the standard itself should not be driven by the industries of the issuers that a firm serves.

Specific Aspects of a QC System and Potential Changes to PCAOB Standards

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

In general, there will be a significant investment to implement and maintain an integrated QC system as described in this concept release, but we believe the benefits to audit quality of an enhanced QC standard justify the costs. However, as mentioned above, significant departures from international standards could cause additional costs for global networks of member firms to implement and comply with two different standards. This would also be true for US firms if the Auditing Standards Board revises its QC standards in line with ISQM 1. In addition, providing very prescriptive required responses or controls may increase the costs of compliance with the standard versus employing the scalability that a principles-based standard allows. We include more detail on cost and benefit considerations on specific components in our responses to subsequent questions.

Firm Governance and Leadership

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach. We do not believe changes to this approach are necessary for this component. However, in reading the Concept Release and related ISQM 1 sections, we noted that ISQM 1 would require firms to "*Assign ultimate responsibility and accountability for the QC system to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). The firm is required to assign an individual who has the appropriate experience and knowledge to fulfill the assigned responsibility*." In our view, a firm should be responsible for assessing the specific competencies of the individual or individuals being assigned the ultimate responsibility and accountability for the QC system to evaluate whether they are fit for that purpose. We suggest that this be reflected in a future QC standard.

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

Clarity in the assignment of firm supervisory responsibilities enhances supervision and positively impacts QC systems and audit quality by better defining lines of responsibility. ISQM 1 is clear in regards to the assignment of ultimate supervisory responsibility to the CEO, managing partner or managing board of partners. Also, the quality objective in ISQM 1 that "*the firm has an organizational structure with appropriate assignment of roles, responsibilities and authority that supports the firm's commitment to quality and the design, implementation and operation of the firm's QC system"* makes clear that others at successive levels within the firm will have responsibilities to support the system of quality control. Incremental or alternative requirements for more clarity in the assignment of firm supervisory responsibility are not necessary. We would caution against defining explicit levels of responsibilities as this could limit the ability of firms of differing sizes and structures to respond to changing professional, organizational or technological circumstances.

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

Quality should be a significant consideration in the appointment of a firm's senior leadership, but it should also be an integrated aspect of the holistic process to identify and appoint candidates for senior leadership positions. In our view, quality is significant but one of many factors that should be considered, and it is important that a final standard allow flexibility for firms to weigh all relevant factors.

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?

The allocation of financial resources to the audit and assurance practice is a crucial quality objective. ISQM 1 provides sufficient emphasis in regards to the allocation of financial resources in the following two objectives:

- *The firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements;* and
- *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.*

We believe that more specificity here would not be beneficial given the varying sizes and structures of firms adopting these standards.

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?

Independent oversight of the firm's QC system can provide benefits to the system of quality control. In our experience, independent directors provide valuable insight and support the achievement of the firm's quality objectives. While there is value to including an element of independent oversight to support the QC system, we also acknowledge that it is challenging to identify qualified, diverse and independent individuals that can fulfill this role. These challenges may impact the scalability of a future PCAOB QC standard to all firms; and, therefore, we do not recommend that a future Quality Control standard require a mechanism for independent oversight.

The Firm's Risk Assessment Process

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach. We believe changes to this approach are not necessary for the proposed risk assessment process component.

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?

Principles-based requirements are necessary to enable firms to appropriately identify, assess and

respond to risks. Firms are familiar with applying a risk-based approach in their audits and this is a natural extension of that concept. A principles-based standard would provide firms with a scalable and adaptable quality control framework which can be applied broadly within the profession, whereas specific requirements may restrict the ability to scale and adapt the QC standard to applicable facts and circumstances. However, supplemental direction, in the form of examples and implementation guidance about the extent of risk assessment expected to be performed at the entity level, practice level and process level, could assist firms in complying with and improve consistent application of those principles-based requirements.

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?

If the quality objectives included in a future QC standard are sufficiently defined, it would not be necessary to specify certain quality risks and responses.

However, if the Board decides to specify quality risks, the standard should not prescribe required responses. A requirement in the QC standard to respond to certain quality risks is inconsistent with the risk-based approach to quality management outlined in ISQM 1. Proper risk assessment will identify the population of potential risks and determine which risks require responses. If the QC standard specifies quality risks, a firm would perform risk assessment and determine if a response is necessary based on the results of that assessment.

Also, it is important to consider the potential changes the IAASB is considering to the risk assessment component of ISQM 1 prior to identifying specific risks to include in the PCAOB QC standard. If any risks that are identified in ISQM 1 differ from those in a future PCAOB QC standard, it could result in implementation challenges for firms subject to both standards.

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 support establishment of performance measures for the achievement of quality objectives recognizing that such measures may not always be quantitative. Accordingly, a future QC standard should avoid requiring prescriptive quantifiable metrics and should allow an individual firm to employ the measures it believes provide the most meaningful insight into quality performance. Additionally, relevant audit quality indicators continue to evolve with changes in businesses and technologies and any related requirement needs to be adaptable to future developments.

Relevant Ethical Requirements

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach for the QC standard. We do not believe that changes to the approach are necessary for the relevant ethical requirements component.

In addition, while we understand the Board's concern related to the risk and compliance

environment, the language in ISQM 1 generally encompasses the additional requirements the Board is considering within the Potential Alternative Requirements section of the Concept Release. For example, the quality objectives included in ISQM 1 paragraphs 32 and A16 requiring firms to identify and establish controls over all relevant ethical requirements, which would include those found in PCAOB standards and SEC rules and regulations, are sufficient to address the differences the Board is considering related to Compliance with relevant ethical requirements and Retaining key concepts under PCAOB standards on page 20 of the Concept Release. Similarly, the additional Independence Requirements listed on page 20 and Updates and Refinements to the Requirements on page 21 of the Concept Release appear to be sufficiently addressed within ISQM 1 and would also, therefore, not require incremental changes in a PCAOB QC standard.

We suggest the Board consider including additional quality objectives, if necessary, rather than specifying responses that would be required by the firms.

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?

The SECPS member requirements are sufficiently reflected in ISQM 1 and it is not necessary to include the detailed requirements from Appendix L in a future PCAOB QC standard. If the Board decides to retain these detailed requirements, we support application by all firms.

Engagement Performance

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach. Changes to the approach for engagement performance are not necessary.

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?

Professional skepticism is an important concept that should be emphasized throughout a firm's system of quality control. Additionally, an effective quality control system should support the application of professional skepticism through the 'tone-at-the-top' of a firm's leadership and its culture, among other aspects of the control environment. The exercise of professional skepticism and significant judgments made by engagement teams manifests itself in many forms and is covered by the auditing standards. A firm's responsibilities and actions over monitoring the use of professional skepticism is sufficiently contemplated in ISQM 1, therefore incremental or alternative requirements are not necessary in a future PCAOB QC standard. For example, the ISQM1quality objectives for addressing the competence and capabilities of human resources to perform quality engagements and developing intellectual resources to further the consistent performance of quality engagements should encompass the use of professional skepticism. Monitoring efforts and root cause analysis under section H of the Concept Release will enable a firm to determine whether proper skepticism was applied.

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?

Evaluation of the use of other audit participants at non-affiliated entities, including specialists, already exists in the auditing standards. ISQM 1, paragraph 32 provides for inclusive evaluation of the firm, its personnel and others. Consideration of use of audit participants at affiliated entities is addressed in ISQM 1, paragraphs 14 and 58. ISQM 1, paragraphs 15 and 64 address use of service providers by a firm. As such, we believe that further guidance is not needed in a future PCAOB QC standard.

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?

Appendix K was designed as a mechanism to allow a US firm to support foreign member firms through performance of certain specified procedures, thus providing its expertise in US regulatory, auditing, and accounting matters. The ISQM 1 requirements generally encompass the overall objectives of Appendix K. Many registered accounting firms operate within global networks. It is important for a future PCAOB QC standard to acknowledge that, in many instances, the Appendix K review is performed by a member firm that is part of a network, and neither the network nor the reviewing firm is responsible for the engagements performed or reports being reviewed. Appendix K addressed this circumstance by including specific language recognizing that the filing reviewer does not assume responsibility for "*detecting a departure from, or noncompliance with, accounting, auditing, and independence standards generally accepted in the U.S., independence requirements of the SEC and ISB, or SEC rules and regulations.*" An Appendix K review is performed without the reviewer or reviewing firm becoming involved in the audit or functioning as part of the engagement team, and the firm performing the engagement retains responsibility for the report issued. This concept is also contemplated in ISQM 1 paragraph 58: "*The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or* ***use of network services*** *to contravene the requirements of this ISQM 1"* [emphasis added]. Paragraph 79 of the explanatory memorandum to ISQM 1 further explains the intention of this requirement by stating, "*The IAASB notes that the firm is responsible for the engagements it performs and the reports that are issued on behalf of the firm, and regulatory oversight occurs at the level of the firm.*"

If the Board elects to retain Appendix K or incorporate elements of Appendix K into a future PCAOB QC standard, it is important to clearly state that an individual firm is responsible for both its QC system and its audit engagements, and network firms (or the network itself) do not assume any of that responsibility by providing these services. The requirements should also continue to make clear that the role and responsibilities of the Appendix K reviewer is distinct from those of the

engagement partner and engagement quality reviewer.

If Appendix K is retained, we also believe that this is a good opportunity to revisit the requirements in the context of the current audit environment. The scope of engagements that fall under the rules of Appendix K and the firms to which it applies should be considered by the Board. For example, Appendix K is limited to registration statements, annual reports on Form 20-F and 10-K, and certain other SEC filings. A firm may deem it appropriate to include other filings that include an audit report from a foreign associated firm, such as Rule 3-05 financial statements, which are not currently within the scope of Appendix K but have similar risks to the types of filings currently included. However, extending the Appendix K requirements "to all audits in which a non-U.S. firm issues an audit report on the financial statements of an issuer" as posited in the question above is too broad and could be interpreted to include reports on financial statements that are not subject to US accounting, auditing and independence standards, or other SEC rules and regulations such as local statutory reports of an issuer. It may be more effective to allow firms to take a risk-based approach to developing when and how to perform these reviews, taking into account the variations in network structure noted above, instead of including or expanding the prescriptive requirements in Appendix K.

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?

It is appropriate for a future QC standard to require firms to monitor engagement performance as discussed in our response to question #42, including employing methods of both proactive and reactive monitoring. However, we encourage the Board to design requirements using a principles-based approach in line with the ISQM 1 framework and avoid prescribing specific monitoring activities. Additionally, such a requirement may more closely align with the quality objectives included in the monitoring and remediation section of the Concept Release.

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 actions to support the fulfillment of the auditor's responsibilities under Section 10A of the Exchange Act are adequately addressed in ISQM 1. The auditor's responsibilities related to fraud, illegal acts, and going concern are covered under the auditing standards, and paragraph 37(c) of ISQM 1 requires a firm to establish policies or procedures related to consultations on certain matters. This quality risk consideration would include consultations on issues related to fraud, illegal acts, and going concern and supports the auditor's responsibilities for these issues. At the firm level under Section 10A of the Exchange Act, a registered public accounting firm is required to provide the SEC a copy of its report to an issuer's board of directors regarding failure to take remedial action related to an identified illegal act should the issuer's board of directors fail to do so within a specified time. The issue of required firm communications is addressed by paragraph 41(c)(i) in the Information and Communications section of ISQM 1, which requires a firm to "*establish policies and procedures that address the nature, timing and extent of communication and matters to be communicated with external parties, including communication to external parties in accordance with law, regulation or professional*

standards." This requirement would encompass required communications with the SEC under Section 10A, and other communications with external parties for which a firm is responsible under various regulations.

If the Board believes there are explicit actions that a firm should undertake, regardless of the size, structure, or identified quality risks of that firm, then including those additional requirements would be appropriate.

Resources

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach. Changes to this approach are not necessary for this component.

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

We support a PCAOB QC standard that addresses technical training under a principles-based approach. We would support incorporating the existing principle in QC 20 that requires firms to obtain reasonable assurance that personnel participate in CPE and other professional development activities to fulfill their responsibilities and satisfy applicable CPE requirements in a future PCAOB QC standard. It is not necessary for a PCAOB QC standard to include specific subjects for which training should be required or outline what training should be required for various roles, as training is most effective when it is relevant to each individuals' roles and responsibilities. A principles-based QC standard would allow individual firms to be responsive to the quality objective of developing human resources, while allowing the firm to tailor training and development programs to best serve its partners and employees. We would support a standard that includes general topical areas (without specific hour, participant or content requirements) that should be addressed by a firm's training and development regimen, such as accounting and auditing, independence, ethics, professional standards and regulatory requirements. We would also support principles-based guidance that helps firms identify who should be subject to training requirements, such as percentage of time devoted to audit or attest services and supervisory responsibilities, similar to existing guidance in QC 20. These guidelines could be expanded to help firms identify who may not be in a traditional audit or attest role but supports those performing audit and attest services, such as those responsible for monitoring or training. Under a new QC standard, it is important that firms retain responsibility for identifying specific training content and who should be required to take a training and documenting compliance with training requirements, as opposed to such training requirements being explicitly outlined in the QC standard.

Additionally, a future QC standard should not include minimum hours of required training. Developing and maintaining competent human resources is not correlated only to time spent in training, and we note that International Education Standard (IES) 7, *Continuing Professional*

Development, no longer prescribes the minimum training requirements that were widely used as a benchmark by the profession. On-the-job training and experience are significant and important elements of a firm's development process and a future QC standard should allow firms to incorporate a variety of development activities to keep the standard relevant as training methods evolve.

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 support consideration of engagement partner competencies in a future PCAOB QC standard; however, we believe the focus of the QC standard should be on how firms identify, monitor and evaluate whether engagement partners possess and exhibit the required competencies. The list proposed in the Concept Release is at a level of detail that is more prescriptive than a general principle, but not inclusive of all competencies that may be necessary for a partner to perform their responsibilities under the audit and attest standards. If the Board decides to include engagement partner competencies in a future QC standard, the requirements should 1) be focused on their relation to quality control and not restate requirements under the audit and attest standards (such as the responsibilities of the engagement partner under AS 1201, *Supervision of the Audit Engagement*), and 2) consider the learning outcomes outlined in IES 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements, Revised*. The learning outcomes in IES 8 were recently updated to provide for sufficient learning outcomes in the areas of professional skepticism and information communication technologies. Aligning the QC competencies for partners to IES 8 would be beneficial as the IES 8 learning outcomes cover many of the same competencies outlined in the Concept Release and include additional relevant competencies that would further strengthen the QC standards if adopted. Additionally, aligning the language of the QC standard partner competencies with the learning outcomes in IES 8 could allow the requirements of IES 8 and the QC standard to be met while avoiding undue costs of complying with two sets of standards that intend to accomplish the same objective.

Certain items included as potential additions to the list of competencies may create prescriptive requirements that are not aligned with the roles and responsibilities of the engagement partner. For example, it is unclear the extent of knowledge that would be required for the competency requiring an engagement partner to have a sufficient understanding of relevant technology. We believe that it would be appropriate for an engagement partner to have an understanding of the technology available and how it could be applied to the specific engagement, as well as being able to identify when it is appropriate to include additional team members to support the effective use of such technology. As written, the competency could be interpreted to cover a more in-depth understanding of how a specific technology functions that should not fall solely on the engagement partner.

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 support a future PCAOB QC standard that provides a framework for how the competencies of other individuals within the firm, such as those in a QC or other engagement team roles, are determined. Overly prescriptive requirements may result in competencies that are inconsistent with how a firm has defined those roles and responsibilities and assigned individuals to fulfill them. Consistent with our view of the competencies for engagement partners outlined in question 33, if the

Board includes competencies for other roles, these should focus on quality control and not restate the requirements under the audit and attest standards.

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?

A future PCAOB QC standard should address the use of emerging technology in both the QC system and on engagements. The tools and technology available to firms are increasing at a rapid pace and the nature of that technology is constantly evolving. Therefore, a thoughtful framework that adapts to the changing technology landscape will provide consistency and quality in tool output and in the development and deployment of technology into the audit by firms and engagement teams. Additionally, a firm may have a central process, supported by appropriate controls, to develop an understanding of relevant technology on which an engagement partner should be able to rely under a future PCAOB QC standard.

We agree with the ISQM 1 objectives "*the firm obtains or develops, implements and maintains appropriate technological resources to enable the operation of the firm's QC system management and the performance of engagements*" and "*personnel appropriately use the firm's technological and intellectual resources*". However, additional clarity from the Board regarding what appropriate technologies and appropriate use of these resources mean in the context of these objectives could help firms comply with the QC standard and ensure consistency in its application.

We also agree that a future QC standard should address data security and additional clarity on how to interpret 'unauthorized access to technology and data' would be helpful. It is not clear if the intent is for a firm's QC system to encompass protection of confidential data and information within the firm (e.g. sharing information only on a need-to-know basis), threats from external sources (e.g. cybersecurity risks), the risk that firm personnel access and use technologies without proper training, or all of these areas..

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?

Ensuring personnel in QC and engagement roles have sufficient time to carry out their responsibilities is an important consideration for a future PCAOB QC standard. The objectives proposed in ISQM 1 provide adequate emphasis on this topic without being overly prescriptive. If there are specific considerations that the Board believes are necessary to respond to the relevant quality risks, such as monitoring how this objective is met when facts and circumstances on an engagement change (e.g. from a complex client transaction or turnover on the engagement team), it would be helpful to include those in a future QC standard.

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

A PCAOB QC standard should not expressly address how the firm's incentive system incorporates

quality considerations. To apply a compensation and incentive system across a firm, it is necessary for the firm to develop policies that can be applied broadly to firm personnel with flexibility to evaluate specific facts and circumstances. If there are certain elements of an incentive system that the Board would expect to be in place at all firms to address audit quality, additional principles-based guidance in this area is appropriate. This could include consideration of rewards-based vs. punitive models.

Information and Communication

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach. Changes to this approach are not necessary for the information and communication component.

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)

The provisions of the NYSE Listed Company Manual Section 303A.07 require audit committees of NYSE-listed companies to obtain a report from their auditors describing internal quality control procedures as well as results of internal quality control review or peer review, among other disclosures. Additionally, regulations in certain jurisdictions such as Article 13 of the European Union's Regulation No. 537/2014 require firms meeting certain criteria to publicly provide annual transparency reports that outline a firm's structure, governance and approach to audit quality within a strong system of quality control. Many larger firms are subject to these requirements and many others voluntarily produce annual transparency reports; to the extent that a firm is not subject to these requirements, we do not believe a future PCAOB QC standard should require this type of public disclosure.

Any additional public disclosure requirements should take into account Section 104(g)(2) of Sarbanes-Oxley, which protects confidential and proprietary firm information as determined by the Board and states that *"no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report"*.

Monitoring and Remediation

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?

As noted in our response to question 2, we believe the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach.

Consistent with the feedback KPMG IFRG Limited provided on ISQM 1[2], we believe additional

[2] Refer to KPMG IFRG Limited July 1, 2019 comment letter response to the IAASB Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)

clarity is needed on the definition of 'findings' and 'deficiencies,' and how firms should evaluate the severity and pervasiveness of identified QC deficiencies. Clear definitions are important to help firms determine the impacts of identified deficiencies and how to perform root cause analysis, monitoring and remediation. Additionally, as many firms that would be required to comply with a future PCAOB QC standard are also subject to peer review, it is important to consider how any future definitions within a PCAOB QC standard may affect the application of existing definitions of matters, findings, deficiencies and significant deficiencies in the AICPA Standards for Performing and Reporting on Peer Reviews.

To the extent that the IAASB addresses these issues in its redeliberations over ISQM 1, it is important for the Board to remain involved so that the resulting definitions and framework can be applied globally. Differences in these fundamental aspects of a quality control system would detract from the benefits of using ISQM 1 as the base for a future PCAOB QC standard.

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

We believe that the requirements in the Concept Release related to monitoring and remediation would prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities based on their assessed risks, and we support incorporating this principle into a future QC standard. The description of ongoing and periodic monitoring provided in footnote 104 of the Concept Release may be interpreted as requiring certain activities. We suggest clarifying that these are examples of types of ongoing and periodic monitoring activities that firms can consider when designing their QC systems.

We anticipate that additional resources may be required to perform ongoing and periodic monitoring of both the QC system and engagement performance. This would be an example of the costs and benefits of implementing and maintaining an integrated QC system relevant to our response to question 12.

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?

As noted in our response to question 40, additional clarity around the definitions of findings and deficiencies would be helpful and important, including how firms should evaluate the severity of deficiencies to the extent these issues are not addressed by the IAASB.

A firm may identify QC deficiencies from testing its system of quality control, PCAOB and peer review feedback on its system of quality control, and engagement deficiencies identified in internal and external inspections. Additional supplemental direction in the form of examples and implementation guidance providing clarity for when and where root cause analysis needs to be performed and how the results from each of these monitoring processes should be evaluated, both individually and in the aggregate, would help firms effectively implement the requirements. This

https://www.ifac.org/system/files/publications/exposure-drafts/comments/KPMGResponsetoED_ProposedInternationalStandardonQualityManagement1_PreviouslyInternationalStandardonQualityControl1_0.pdf

would be an example of the costs and benefits of implementing and maintaining an integrated QC system relevant to our response to question 12.

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?

Acknowledging that the most recent draft of ISQM 1 retains a requirement to inspect completed engagements, how firms include internal inspections of their completed engagements as part of their systems of quality control should be based on their risk assessment. As innovative monitoring procedures emerge, the emphasis on inspecting completed engagements may become less relevant. A future QC standard should be designed so that its requirements can be applied as practice evolves.

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 a future PCAOB QC standard should establish requirements for internal inspection selection criteria, including which engagements or engagement leaders should be inspected (i.e. risk assessment-based), how often a given engagement leader or specific engagement is inspected (also should be based on assessed risks), or minimum or cyclical thresholds for inspections of completed engagements by a firm. A QC standard should also not prescribe who must perform the inspections (e.g. firm personnel vs. outsourcing to a qualified third-party). We support a risk-based approach to monitor engagements which may include both completed engagements and in-process engagements, and one that is flexible enough to allow for more innovative, timely, and meaningful forms of monitoring. Allowing firms to employ a risk-based approach to monitoring that embraces technological developments and enables better in-process monitoring further reduces the need for the strict requirement for completed engagement monitoring in a prescribed timeframe.

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?

Evaluating quality control is a continuous process that supports a firm's ability to issue audit reports throughout the year; however, as a practical matter, we support an annual assessment as of a specified date chosen by the firm.

As noted in our response to question 40, clarity is needed about how to evaluate the matters that are identified during a given period, including those identified through external inspection, and their impact on the effectiveness of a firm's quality control system as a whole at any given point in time (whether evaluating that system as of a point in time or over a specific period). Additionally, root cause analysis and remediation efforts are on-going throughout any given period. As a firm's QC system is continuously identifying areas for improved performance, the QC standard should clarify how a firm's progress toward improvements would impact the conclusions on the QC system.

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 support a requirement that firms should report to the Board on the annual evaluation of their QC system effectiveness, while preserving the confidentiality provisions and protection of proprietary information mandates under Section 104(g)(2) of the Sarbanes-Oxley Act. We believe the report should be limited to a firm's conclusion about whether the QC system provides reasonable assurance that quality objectives are achieved. A firm's system of quality control comprises many interrelated components functioning together to create an effective system; expanding the reporting requirements outside of the conclusion on its effectiveness, such as including performance measures, would not give a complete depiction of the system or the firm's assessment process and could be misconstrued.

Refer to our response to question 39 for additional perspective on making firms' reports publicly available.

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 do not believe it is necessary to require a firm's top leadership to certify as to the effectiveness of the firm's QC system. As noted in the response to question 14, ISQM 1 is clear in regards to the assignment of ultimate supervisory responsibility to the CEO, managing partner, or managing board of partners and additional benefits that may be obtained through a required certification by leadership are not clearly evident. A firm should determine the most appropriate means of achieving this quality objective based on its facts and circumstances. For example, a firm may determine that a process of obtaining certification from resources at different levels of responsibility provides clarity around and accountability as to those responsibilities and assists those ultimately responsible for the system's effectiveness to fulfill their responsibilities.

It is also unclear what constitutes 'top leadership' in this context and whether this would unintentionally expand the assumption of ultimate responsibility to a broader group.

Documentation

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

As noted in our response to question 2, the use of ISQM 1 requirements as a starting point for a future PCAOB QC standard is an appropriate approach for the QC standard. Changes to the documentation approach are not necessary for this component.

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?

The sufficiency and retention period requirements described in the Concept Release are appropriate and consistent with concepts included in PCAOB standards and SEC rules. However, further clarification

on the specific category of documentation that should be retained is needed. Under ISQM 1, a firm determines a retention period sufficient for those performing monitoring procedures to evaluate the firm's system of quality control, or longer if required by law or regulation. In our view, the seven-year retention period should only apply to the specific documentation accumulated as part of our assessment of the system of quality control and not to all information contained in underlying firm systems that support the system of quality control. For example, a firm's HR system, which could be considered to be part of a firm's system of quality control, would most likely contain sensitive and confidential information, such as Personally Identifiable Information ("PII"), the retention of which may be governed by other laws.

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?

Firms should be required to document their understanding of network or third-party provided methodology and tools. However, paragraphs 58-63 and 68 of ISQM 1 seem to sufficiently address the requirements to obtain and document a firm's understanding. Additionally, paragraphs A192-A196 of the ISQM 1 application guidance provide helpful information on what network requirements and services are, how they may be used in relation to a firm's system of quality control, and how a firm may fulfill its responsibilities to understand and document quality control considerations around these network functions.

Roles and Responsibilities

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

The PCAOB should establish standards that specify the responsibilities for the system of quality control. The responsibilities should be described in a manner that allows a firm to identify the appropriate level of management within the firm to efficiently and effectively address the responsibility outlined in the standard. Including required titles within the standard may limit flexibility and scalability. There may be significant implementation costs to adjust a firm's structure to comply with specific roles and responsibilities, and specific requirements may limit a firm's ability to use resources in the most effective and efficient way based on experience and skills.

As noted in the Concept Release, the requirements of firm personnel as they relate to the standards of conduct on an engagement, such as due professional care and fulfilling responsibilities with professional competence, integrity and objectivity, are included in the existing auditing standards. We believe the QC standards should provide the quality objectives for the firm's system of quality control, such as identification of roles and responsibilities based on the appropriate legal and regulatory environment or monitoring compliance with those standards, in a principles-based manner, rather than prescribe additional standards of conduct.

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?

As noted in our response to question 51, a firm should have the ability to determine how best to assign individuals to meet the responsibilities outlined in the final standard, including the level of

management and related titles. Any additional specific responsibilities the Board believes are appropriate should be included in a manner that allows a firm to develop the appropriate structure to address those responsibilities and adapt to ongoing changes in both the profession and regulatory environment.

Other Potential Changes to Other PCAOB Standards

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

The Board outlines its concern with how auditors are applying the guidance in AS 2901 and the introduction to this section suggests that substantive changes may be necessary related to this auditing standard. The proposed potential revisions in section A of part V of the Concept Release are not substantively different from the extant requirements under AS 2901, and as written, are not likely to change behavior. If the Board continues to believe changes are necessary to better reflect the intended requirements of the standard, we support a separate project to revisit the AS 2901 requirements.

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

As outlined in our overall feedback, we believe that it is important for a future QC standard to focus on a firm's responsibility to maintain an effective system of quality control, and the auditing standards should outline the responsibilities of the engagement team for audit quality at the engagement level. This concept is laid out in AS 1110.03 which states that, "*auditing standards relate to the conduct of individual audit engagements; quality control standards relate to the conduct of a firm's audit practice as a whole*" and is also outlined in the scope of ISQM 1, paragraphs 1 and 2. We believe that the distinction between auditing standards and QC standards as it relates to quality management is an important concept that should be retained. We would support rescinding AS 1110, as long as this concept is incorporated into the scope of a future QC standard.

Scalability

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?

A principles-based QC standard that focuses on identifying, assessing, and responding to risks specific to an individual firm should be sufficiently scalable and flexible to adapt to a firm's size, structure, and relative complexity. Additionally, a system of quality control should not be driven by the nature of the engagements performed by a firm. Including different requirements in future QC standards based on these factors may result in actual or perceived differences in quality between firms.