



March 16, 2020

By email: comments@pcaobus.org

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

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

Dear Office of the Secretary:

Mazars USA LLP (Mazars) welcomes the opportunity to provide our feedback on PCAOB Release No. 2019-003, Rulemaking Docket Matter No. 046, Concept Release, *Potential Approach to Revisions to PCAOB Quality Control Standards* (the "Concept Release"). Mazars appreciates the PCAOB's efforts to enhance the quality of audit engagements through the revision of the existing PCAOB QC standards.

Mazars USA has over 100 partners and 800 professionals across the United States (U.S.) and is an independent member firm of the Mazars Group, an organization with more than 1,000 partners and 24,000 professionals in 91 countries around the world, and a member of Praxity, a global alliance of independent firms. As a U.S. registered public accounting firm, and a member of an international network, Mazars has a unique perspective that may differ from our international counterparts due to variations in our client population and the U.S. regulatory and litigation environment. The views we share on the Concept Release are driven by our position in the U.S. marketplace as a Top 25 accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm of a global network.

We are fully committed to the highest levels of audit quality in the execution of our audits and believe our current system of quality control is foundational to our ability to achieve this goal. We fully support the PCAOB's method of analysis in the Concept Release and the decision to use the International Auditing and Assurance Boards (IAASB) proposed International Standard on Quality Management 1 (ISQM 1) as the starting point for potential changes to the PCAOB's QC standards. Collaboration with the IAASB and other standard setters, will promote consistent quality management and alignment across networks.

The recurring themes that we express in many of our responses to the questions in the following section center around the opportunity to set quality management standards that are risk-based, flexible and scalable. In leveraging the substantial changes in quality management promoted by ISQM 1, we encourage the PCAOB to avoid potential revisions that are too prescriptive in nature and too numerous in number, thus appearing more akin to the current compliance-based standards.

We highlight below the key reasons to limit the incremental or alternative requirements in the revised PCAOB QC standards:

- As noted in our response to ISQM 1, the sweeping changes expected from the implementation of the new risk-based framework will require 1) adequate time to thoughtfully address, 2) additional resources, and 3) potential organizational changes to successfully achieve the intended results. Smaller firms and networks will be significantly challenged in this exercise and adding many differences to contemplate could have the unintended consequence of detracting from the effectiveness of any new firm level quality management approach.

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- Given the current range of firms registered with the PCAOB, scalability matters. On the PCAOB's website, only 12 firms are noted to require annual inspections due to auditing of more than 100 issuers. This means approximately 1850 other U.S. and non-U.S. accounting firms of all sizes are registered and would be required to comply with the revised PCAOB QC standards. ISQM 1 is comprehensive, risk-based, and flexible enough to address needs across jurisdictions and does not impose a one-size fits all compliance driven model.

Questions

Introduction

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

Response: Yes, due to the recent evolution and changes in the audit practice, we agree that the current PCAOB QC standards should be revised to address the current challenges to audit quality and provide alignment across standard setters, including, but not limited to, incorporating a risk-based approach to reflect these recent developments. No, we do not believe there are other changes you should take into account at this time.

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

Response: Yes, we strongly support the use of proposed ISQM 1 as the basis for a future PCAOB QC standard. The fewer the differences between the future PCAOB QC standards and ISQM 1, the greater likelihood firms will be able to implement an integrated risk-based framework effectively designed to enhance audit quality. Managing differences between standard setters could have the unintended consequence of detracting from the firms' ability to design sustainable systems of quality management. PCAOB registered firms are also subject to other QC standards including those from the IAASB. No, we support the approach in the Concept Release starting with ISQM 1, but we recommend less incremental or alternative requirements.

- 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?

Response: We agree with the PCAOB's desire to avoid unnecessary differences between its standard and the finalized IAASB standard, and believe, it would be beneficial to limit the differences. We fully understand the specificities with regard to U.S. federal securities law and Security and Exchange Commission rules, however, believe the framework provided in ISQM 1 provides for the flexibility to address different jurisdictional laws and regulations. Too many differences and too much prescription could potentially adversely impact audit quality by distracting firms' resources away from the thoughtful and careful exercise of change management required to adopt both ISQM 1 plus a substantially different PCAOB framework. We do not believe there are any other differences the PCAOB should consider.

Background and Considerations for Potential Revisions to QC Standards

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

Response: We agree with the assessment of the evolution of the current PCAOB QC standards as discussed in the Concept Release, including the potential future standards should be leveraged off of ISQM 1, with appropriate flexibility and scalability, and apply to all registered firms. We do expect audit practices to continue to progress and advance in the future, therefore, it is essential for the PCAOB QC standards to be adaptable, similar to ISQM 1. Having principle-based standards is key to designing a quality management framework that remains applicable in an evolving environment.

- 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?

Response: We are in the early stages of evaluating potential impacts and changes to our current system of quality control in anticipation of the future changes from the IAASB and PCAOB standards. The efficiency and effectiveness of our future enhancements, with a view toward quality management, is highly dependent on limited unnecessary differences in a new PCAOB QC standard.

- 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.

Response: We believe the PCAOB has access to the same publicly available research we have seen. Should something new or not in the public domain come to our attention we will share with the PCAOB staff.

Potential Standard-Setting Approach Based on Proposed ISQM 1

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

Response: Yes, the approach to quality control standards described in the Concept Release is preferred to current PCAOB QC standards. The current PCAOB QC standards require modernization and revision. Alignment with ISQM 1 is the right starting point. As recommended throughout our response, the greatest enhancement in quality will be achieved with limited incremental and alternative requirements in the revised PCAOB QC standards.

- 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?

Response: Yes, we support the objective of the system of quality management provided in ISQM 1. No, we do not believe any additional objectives are necessary.

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

Response: Yes, the potential revisions to the PCAOB QC standards should improve QC systems and audit quality. The effectiveness of potential revisions will highly depend upon the thought and care taken by firms in the design of modern systems of quality management customized to each firms' circumstances.

- 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?

Response: The many new principle-based concepts in ISQM 1 should serve to improve firm-level systems of quality control and enhance the quality of audit engagements. We do not believe significant incremental or alternative requirements to ISQM 1 are needed in the development of revised PCAOB QC standards, however, the PCAOB may consider whether complementary changes are needed to some of the engagement level standards.

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

Response: No incremental or alternative requirements are needed for firms that audit broker dealers. The objective for audit quality is the common goal across all industries, therefore, one scalable revised PCAOB QC standard is adequate and ideal.

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?

Response: Implementing and maintaining an integrated QC system as described in the Concept Release, is expected to add significant additional cost and time. Provided there is enough flexibility in the standard for firms to scale the integrated system to best fit their structure, over time, the additional benefits to quality should exceed the incremental costs. There could be an opposite result for smaller firms if the revised PCAOB QC standard is compliance focused as opposed to a principle- and risk-based approach. We urge the PCAOB to avoid unnecessary differences between revised PCAOB QC standards and ISQM 1.

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?

Response: The approach to firm governance and leadership should be based on ISQM 1 with no incremental or alternative requirements.

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

Response: No additional clarity is needed; ISQM 1 includes a sufficient framework allowing firms to exercise professional judgement in best assigning these roles. The desired outcome will best be achieved with scalable revised PCAOB QC standards that allow for flexibility in design to meet desired quality objectives, by firms of different size and nature.

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

Response: No, we support the requirements in ISQM 1, which includes principles to assign ultimate responsibility and accountability within senior leadership. We do not believe any incremental requirements are necessary.

- 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?

Response: No, we do not believe greater emphasis is needed in a future PCAOB QC standard. We concur that it is of utmost importance to allocate sufficient financial resources to meet the firm's audit quality objectives. However, we believe ISQM 1 provides for adequate focus in this area; adding additional emphasis is not necessary.

- 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?

Response: No, we do not believe the revised PCAOB QC standard should include the incorporation of independent oversight over firms' QC systems. The prescribing of such mechanisms may not be adaptable to all firms of varying sizes; limiting scalability. In addition, mandating independent oversight may result in unintentional consequences that would compromise audit quality, as firms may be forced to expend financial resources that would be more effectively used on audit quality initiatives.

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?

Response: The approach to the firm's risk assessment process should be based on ISQM 1 with no incremental or alternative requirements.

- 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?

Response: Yes, we believe principles-based requirements are sufficient to prompt firms to appropriately identify, assess and respond to risks. Additional implementation materials and guidance similar to those of ISQM 1 would be valuable and enhance firms' ability to adopt the standards in the manner the PCAOB intends. The Board should also consider preparation of frequently asked questions (FAQs) and other guidance documents (similar to those issued for the PCAOB's recent revised auditing standards) to be made available during and after the implementation period. Webinars from the PCAOB staff may be another effective method of communication to firms.

- 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?

Response: No, we do not believe specific quality risks should be mandated. See question 19 response for some recommended communication methods. We welcome communication from the PCAOB with respect to the key factors to be considered to enhance firm-level implementation and promote greater consistency across firms in the application of the revised PCAOB QC 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)?

Response: No, it is not necessary to establish quantifiable performance measures. We don't believe quantifiable performance measures would enhance quality. We are concerned a quantitative measurement system can be misleading and cause unnecessary confusion, time spent and use of resources.

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?

Response: The approach to relevant ethical requirements should be based on ISQM 1 with no incremental or alternative requirements.

- 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?

Response: We support the PCAOB in updating the current independence quality control requirements of Appendix L, to a principle- and risk-based approach within the revised PCAOB QC standards. We believe the incremental benefits of the revised QC standards that are flexible and risk-based will outweigh the costs of implementation. We do not believe any revised requirements of Appendix L should be prescriptive in nature. If revised to a risk-based approach we would support extending to all firms.

Acceptance and Continuance of Clients and Engagements

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

Response: The approach to acceptance and continuance of clients and engagements should be based on ISQM 1 with no incremental or alternative requirements.

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?

Response: The approach to engagement performance should be based on ISQM 1 with no incremental or alternative requirements.

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

Response: No, the revised PCAOB QC standards will generate benefits for engagement quality as intended, we do not believe incremental requirements are necessary to monitor the application of professional skepticism and professional judgments made by engagement teams. Many sections of the quality control framework already support this effort. We did note in our comment letter to the IAASB on the ISQM 1 that the proposed standard only includes guidance for exercising professional skepticism in the engagement performance component of the proposed standard, and have suggested the IAASB consider whether other components of ISQM 1 should include requirements for professional skepticism. We encourage the PCAOB to consider the same for the revised PCAOB QC Standards.

- 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?

Response: Yes, we support expanding the definition of the participants of the audit as currently defined in PCAOB QC 20, to include, non-affiliated individuals including, component auditors, specialists, and service delivery centers. We support retaining the existing standards, with revisions to refine the definition of audit participants, and clarification on supervision of non-affiliated individuals at the engagement level. In addition, we believe these changes should be consistent with the engagement level auditing standard for use of specialists.

- 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?

Response: Yes, we are supportive of the original objectives of Appendix K reviews. However, Appendix K is dated and should not be retained in its current form. The content with continuing relevance should be retained and folded into the revised PCAOB QC standards. A firm's system of quality control in alignment with ISQM 1, which is scalable, should be designed to enable U.S. firms to determine appropriate policies and procedures of the Appendix K review. It is important for the Appendix K review requirements to be flexible so that they can be tailored based on relevant firm risks; for example type of engagements, type of filing, and country performing the work. The responsibilities for an Appendix K review (focused on the SEC filing) versus EQR should be clarified in any revised PCAOB QC standards and conforming amendments to AS 1220, *Engagement Quality Review*, and other engagement level standards, as needed.

- 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?

Response: No, while we agree that monitoring activities are very important to the proactive detection and prevention of engagement deficiencies, the design of such monitoring activities should be determined based upon the risk profile specific to each engagement and aligned with the risk-based approach, including quality objectives for the firm as a whole. We do not believe prescriptive monitoring standards would further prevent or detect audit deficiencies.

- 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:
- With respect to fraud?
 - With respect to other illegal acts?
 - With respect to going concern consideration?

Response: The revised QC standard should not need to specifically address Section 10A of the Exchange Act. The risk-based approach inherent in ISQM 1 would already broadly address the regulatory requirements. We support a principle-based approach, with in the applicable regulatory environment, that would allow firms to determine appropriate measures in response to the risks of fraud, illegal acts and going concern.

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?

Response: The approach to resources should be based on ISQM 1 with no incremental or alternative requirements.

- 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?

Response: No, we do not believe any incremental requirement to ISQM 1 is needed. The revised PCAOB QC standard should encourage trainings based on the firm's audit practice by industry and complexity. We believe that the requirement to have properly trained people is an essential element to assigning resources and a firm's system of quality management. However, we support a principle-based flexible approach whereby firms should set their own standards for academic, professional standards, and industry and SEC trainings based on assessed risk and client base. Specific quantitative requirements should not be mandated in a revised PCAOB QC standard, as mandating specific training requirements would not properly address the training needs of different firms.

- 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?

Response: Partner competence is an essential element of assigning partners to engagements and the firm's system of quality management. The current PCAOB QC standards in this area are sufficient. No incremental competencies are necessary.

- 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?

Response: No, we do not believe the competencies of individuals in engagement or QC roles need to be addressed beyond what exists in the current PCAOB QC standards and ISQM 1.

- 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?

Response: Yes, we believe future PCAOB QC standard should address the use of emerging technology and conforming changes should be made to engagement standards to incorporate the use of technology and data analytics to prevent any unintended consequences. The revised PCAOB QC standard should address firm-level tools, while the engagement standards should address the applicability and sufficiency of evidence when using technology, including automated intelligence and data analytics. We believe access controls are already covered in the broader business enterprise risk and data security. The revised PCAOB QC standard should layer on incremental requirements specifically to access controls.

- 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?

Response: Ensuring that firm personnel in QC and engagement roles have sufficient time to properly carry out their responsibilities is adequately addressed by ISQM 1, no greater emphasis or additional requirement is necessary.

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

Response: The approach to this area in ISQM 1 is adequate to address how the firm's incentive system, including compensation incorporates quality considerations.

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?

Response: The approach to the firm's information and communication should be based on ISQM 1 with no incremental or alternative requirements.

- 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)

Response: No, a future PCAOB QC Standard should not require public disclosure by firms about their QC system. We do not see such a requirement adding value or enhancing the quality objective and would be particularly onerous for smaller firms.

The Monitoring and Remediation Process

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

Response: The approach to monitoring and remediation should be based on ISQM 1 with no incremental or alternative requirements.

- 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?

Response: We believe the requirements related to monitoring and remediation in ISQM 1 will prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities, including feedback and remediation. We do not see the need for incremental or alternative requirements.

- 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?

Response: We welcome communication from the PCAOB in the form of guidance (see earlier response to Question 19 related to communication methods) to support clarity and consistency in implementation and practice. We do not believe prescriptive direction is needed.

- 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?

Response: As noted in our responses to the IAASB relating to ISQM 1, inspecting completed engagements is just one method that can be used in the monitoring process. We recommend placing more emphasis on a risk-based approach to encourage firms to adopt additional monitoring techniques, such as the use of in-process engagements reviews. We acknowledge the most recent draft of ISQM 1 paragraph 45 retains the requirement to inspect completed engagements. We suggest further clarification in the revisions to the PCAOB QC standards to describe inspection of completed engagements is only one method of monitoring audit engagements. The revised PCAOB QC standards should allow firms to use a risk-based approach that is scalable, and able to evolve, in considering the timing and nature of internal inspections. We think building in flexibility would lead to improved effectiveness and enhanced audit quality.

- 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?

Response: No, we do not see the need for the revised PCAOB QC standard to prescribe selection criteria for internal inspection. We believe the internal inspection approach should be customized by each firm after careful evaluation of risks and objectives and should be flexible and scalable to maximize effectiveness. There should be an element of unpredictability for engagement selection. We are concerned that adding mandated selection criteria could potentially compromise quality on jobs with lower odds of selection.

- 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?

Response: Yes, we agree that an annual evaluation of the QC system is important to provide reasonable assurance that the objectives of ISQM 1, and any future PCAOB standards have been achieved. We also believe that firms should determine the specific date or period for the evaluation, based on risk assessments.

- 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)?

Response: No, firms should not be required to report to the Board on their annual evaluations of QC system effectiveness; firms should also not be required to disclose performance measures. As noted in Question 39, do not believe firms' QC reports should be publicly available.

As we noted in our responses to Question 21, it would not be effective to measure firms in a quantifiable fashion. We believe disclosure of such quantifiable measures could be misleading, and counterproductive to the public interest as it could undermine the integrity of the evaluation process. Particularly, as it relates to this topic of reporting, we would like to emphasize the importance of requirements that are scalable to all firms. We believe firms should set their reporting policies based on risk-based assessments and quality objective in consideration of firm size and nature. We do not support a one size fits all approach in this area.

- 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?

Response: No, we support the requirements in ISQM 1, and do not believe any incremental or alternative requirements are necessary.

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?

Response: The proposed documentation consideration as stated in ISQM 1 is appropriate, including the flexibility promoted. We do not believe incremental or alternative requirements are necessary.

- 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?

Response: The approach to retention period required should be based on ISQM 1 with no incremental or alternative requirements.

- 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?

Response: The approach based on ISQM 1 is sufficient, no incremental or alternative documentation requirements are needed.

Roles and Responsibilities of Individuals

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

Response: No, we believe it is important for firms to have flexibility when assigning these roles. We do not believe the PCAOB should specify roles and responsibilities of firm personnel in relation to the firm's QC system. Inclusion of this specification would constrain scalability and hinder practical application to firms of varying sizes and nature.

- 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?

Response: We agree with the proposed requirements in ISQM 1 to establish certain roles within the QC system, and we appreciate the importance of this focus. Due to the complexity of the independence requirements, we support the direction for assigning independence roles. However, we do not believe more explicit roles and responsibilities (other than for independence) should be added by the revised PCAOB QC standards. This potential incremental requirement would contradict the themes of a principle-based approach and would limit scalability.

Related Potential Changes to Other PCAOB Standards

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

Response: No, we believe a properly designed risk- based system of quality control will direct firms to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*. AS 2901 is clear as written and we do not believe amendments are needed.

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

Response: Yes, AS 1110, *Relationship of Auditing Standards to Quality Control Standards* is important to retain. AS 1110 provides linkage between the QC system and the auditing standards specifically noting that issues identified within a firm's system of quality control, do not automatically imply an audit engagement is non-compliant with the PCAOB's auditing standards.

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

Response: The revised PCAOB QC standards are intended to be developed with a principle-based focus that can be applied to firms ranging in all size and nature. We have noted in some of our responses above where we vision conforming changes to certain auditing standards.

Scalability

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

Response: Yes, we value the PCAOB's efforts in developing standards using an approach that is scalable to firms of varying sizes. To achieve such scalability the PCAOB should avoid standards that are prescriptive in nature. A principles and risk-based approach would best achieve this goal.

- 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?

Response: Yes, there are aspects of the approach described in this Concept Release that would disproportionately affect smaller firms, predominantly those that are being considered as incremental or alternative requirements beyond what is reflected in ISQM 1. We continue to emphasize the importance of a principle-based approach, which is customizable to fit firms with client bases of different sizes, complexity, and nature. We note, smaller firms may be challenged with implementing ISQM 1 ranging from the need for additional resources and organization changes to having the adequate time to thoughtfully address the requirements. We have recommended in our responses to many questions above that incremental and alternative requirements added to ISQM 1 in a revised PCAOB QC standard will be too onerous for smaller firms and should be kept to a minimum.

- 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?

Response: No, we believe ISQM 1 appropriately addresses firms of all sizes by using a principles-based approach. Having more specific requirements for certain components based on size of firm or industry would not be beneficial. On the contrary, a risk-based approach would most enhance quality, inherently allowing firms to tailor their systems of quality control to best address the unique aspects of their businesses.

Overall, we support revisions to the PCAOB's QC standards, using ISQM 1 as the starting point. We encourage the Board to impose as few incremental and alternative requirements to ISQM 1 in order to maintain principle-based quality standards built on an integrated risk-based framework, which allows for scalability. We appreciate the Board's issuance of the Concept Release and the opportunity to share our views. We hope the PCAOB will continue to collaborate with the IAASB and other standard-setters as it moves through the next phases of the quality control project.

We would be pleased to discuss our responses with you at your convenience.

Please direct any questions to:

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Very truly yours



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